

# THE TORONTO STOCK EXCHANGE

7/1/71

FILING STATEMENT NO. 1769  
FILED, JANUARY 15, 1971.

*See*  
\* HOUSTON OILS LIMITED

Full corporate name of Company

The Amalgamated Company will be incorporated by a Certificate of Amalgamation to be issued by the Registrar of Companies for the Province of Alberta on or about February 1, 1971. As a result of the amalgamation of Ensign Oils Limited and Houston Oils Limited under Section 140(a) of The Alberta Companies Act.

Particulars of incorporation (e.g., Incorporated under Part IV of the Corporations Act, 1953 (Ontario) by Letters Patent dated May 1st, 1957).

## FILING STATEMENT

(To be filed with respect to any material change in a company's affairs, including among other things, an underwriting and option agreement, an issue of shares for property and a proposed re-organization.)

1. Brief statement of the material change in the affairs of the company in respect of which this statement is filed.	This statement is filed as a result of the amalgamation of Ensign Oils Limited and Houston Oils Limited into one company to be known as Houston Oils Limited pursuant to Section 140 (a) of the Alberta Companies Act.
2. Head office address and any other office address.	950 Three Calgary Place, 355 - 4th Ave. S.W., Calgary 1, Alberta.
3. Names, addresses and chief occupations for the past five years of present or proposed officers and directors.	<p><b>DIRECTORS</b> Albert Edward Whitehead, Calgary, Alberta, President of Houston Oils Limited, Calgary. James Arthur Millard, Calgary, Alberta, Partner, MacKimmie Matthews, Barristers and Solicitors, Calgary, Alberta Louis Marx, Sr., Scarsdale, N.Y., U.S.A., President Louis Marx &amp; Co., New York, N. Y. William Andrew Clarke, Oakville, Ontario, Vice President and Director of Gairdner &amp; Company Limited, Toronto, Ontario, Charles Franklin Agar, Calgary, Alberta, Geological Engineer, Gairdner &amp; Company Limited, Calgary, Alberta, John Arthur Downing, Calgary, Alberta, President of Ensign Oils Limited, Calgary, Alberta. Roger Lauren Ball, Calgary, Alberta, Vice President of Ensign Oils Limited, Calgary, Alberta. All of the above persons have held the principal occupations indicated for the last five years of more, with the exception of Mr. Agar who, prior to April 1969, was employed as an Engineer with Shell Canada Limited.</p> <p><b>OFFICERS</b> Albert E. Whitehead, President, Calgary, Alberta. John A. Downing, Vice President, Calgary, Alberta. Darrell R. Long Vice President, Exploration, Calgary, Alberta. Thomas M.M. Bender, Treasurer, Calgary, Alberta. James A. Millard, Secretary, Calgary, Alberta. Messrs. Millard and Whitehead have held their respective offices for the past five (5) years. Mr. Downing has been President of Ensign Oils Limited for the past five (5) years.</p> <p>Prior to joining the Company in May, 1969, Mr. Long was employed as a geologist with Bow Valley Exploration Ltd. and prior to that was with Whitehall Canadian Oils Ltd. and with Hudson's Bay Oil &amp; Gas Co. Limited. See "Directors of the Amalgamated Company", page 3 of Information Circular and page 4 of Exhibit 1 thereto.</p> <p>Prior to joining the Company in May, 1969, Mr. Bender was employed as an accountant with Whitehall Canadian Oils Ltd. and with Hudson's Bay Oil and Gas Co. Limited.</p>

4. Share capitalization showing authorized and issued and outstanding capital.	The Amalgamated Company will be authorized to issue 20,000,000 shares without nominal or par value of which 4,123,000 shares will be issued and outstanding
5. Particulars in respect of any bonds, debentures, notes, mortgages, charges, liens or hypothecations outstanding.	The Company will be subject to an aggregate amount of \$857,963.00 in long term debt (including maturities). See "Capitalization" Page 6 of Information Circular.
6. Details of any treasury shares or other securities now the subject of any underwriting, sale or option agreement or of any proposed underwriting, sale or option agreement.	<p>There are no options outstanding or intended to be outstanding with respect to any securities of Ensign except an option on 50,000 shares granted to Gairdner &amp; Company Limited ("Gairdner") pursuant to the terms of an Underwriting Agreement between Gairdner and Ensign dated August 19, 1968.</p> <p>There are no options outstanding or intended to be outstanding with respect to any securities of Houston other than:</p> <p>(i) 50,000 shares of Houston have been reserved for issuance under a stock option plan for its key employees. The stock option plan provides that options are to be granted, exercisable at the market price of the shares at the time the option is granted, for a period of 5 years provided the employee remains an employee of Houston. No options have been granted under the plan; and</p> <p>(ii) the 300,000 Share Purchase Warrants sold to Gairdner pursuant to the terms of an Underwriting Agreement between Gairdner and Houston dated December 1, 1969, 200,000 of which were distributed to the public subsequent to such Underwriting Agreement. See "Options", page 4 of Information Circular.</p>
7. Names and addresses of persons having any interest, direct or indirect in underwritten or optioned shares or other securities or assignments, present or proposed, and, if any assignment is contemplated, particulars thereof.	See "Options", page 4 of Information Circular.
8. Any payments in cash or securities of the company made or to be made to a promoter or finder in connection with a proposed underwriting or property acquisition.	None
9. Brief statement of company's future development plans, including proposed expenditure of proceeds of sale of treasury shares, if any.	<p>See "Operations of Houston", page 22 of Information Circular.</p> <p>Additionally, the Amalgamated Company plans to participate in the drilling of approximately 45 exploratory or development wells in 1971</p>
10. Brief statement of company's chief development work during past year.	The Amalgamated Company has participated in drilling 85 exploratory or development tests of which 9 were oil wells, 18 were gas wells and 58 were dry hole. The Company also conducted field surveys on several of its mining properties. It also added substantial acreage to its future drilling prospects.
11. Names and addresses of vendors of any property or other assets intended to be purchased by the company showing the consideration to be paid.	None
12. Names and addresses of persons who have received or will receive a greater than 5% interest in the shares or other consideration to be received by the vendor. If the vendor is a limited company, the names and addresses of persons having a greater than 5% interest in the vendor company.	See "Principal Holders of Shares", page 5 of Information Circular.

**PROXY  
STATEMENT  
  
AND  
  
INFORMATION  
CIRCULAR**

**FURNISHED BY  
HOUSTON OILS LIMITED  
TO  
THE SHAREHOLDERS OF  
HOUSTON OILS LIMITED**

**FOR A**

**Special General Meeting  
of Shareholders**

**TO BE HELD  
JANUARY 25, 1971**

# INDEX TO PROXY STATEMENT AND INFORMATION CIRCULAR

	Page
Solicitation of Proxies .....	1
Purpose of Meeting .....	1
Summary of Proposed Amalgamation	
General .....	1
Reasons for the Proposed Amalgamation .....	1
Shareholders' Rights Following the Amalgamation .....	2
Tax Consequences .....	2
Rights of Dissenting Shareholders .....	3
Directors of the Amalgamated Company .....	3
Remuneration of Directors and Senior Officers .....	4
Options .....	4
Escrowed Shares .....	4
Description of Houston Share Purchase Warrants .....	4
Principal Holders of Shares .....	5
Material Contracts .....	5
Capitalization .....	6
Book Value of Shares .....	6
Market Price of Shares .....	7
Pro Forma Combined Statement of Income (Unaudited) .....	8
Pro Forma Combined Condensed Balance Sheet (Unaudited) .....	9
Ensign Oils Limited	
General .....	10
Operations of Ensign .....	10
Oil and Gas Properties .....	10
Crude Oil and Natural Gas Production .....	11
Oil and Gas Reserves .....	11
Non-Producing Properties .....	12
Drilling and Exploration .....	13
Mining Permits, Claim Blocks, Mining Claims .....	14
Auditors' Report and Financial Statements .....	15 - 21
Houston Oils Limited	
General .....	22
Operations of Houston .....	22
Oil and Gas Properties .....	22
Crude Oil and Natural Gas Production .....	23
Oil and Gas Reserves .....	23
Non-Producing Properties .....	24
Status of Alaskan Lease Offers .....	27
Operations in Turkey .....	27
Drilling and Exploration .....	27
Mineral Prospecting Permits .....	28
Auditors' Report and Financial Statements .....	29 - 35
General Information	
Persons Making the Solicitation .....	36
Appointment and Revocation of Proxies .....	36
Voting Shares and Principal Holders Thereof .....	36
Signature of Proxy .....	36
Action to be taken under the Proxy .....	37
Sources of Information .....	37

## **SOLICITATION OF PROXIES**

This Information Circular is furnished in connection with the solicitation of proxies by the management of Houston Oils Limited, ("Houston") for a Special General Meeting of Shareholders to be held at Calgary, Alberta, on the 25 day of January, 1971, commencing at 2:00 o'clock P.M. (M.S.T.), for the purposes set forth in the Notice of Meeting accompanying this Information Circular. Information contained herein, unless otherwise expressly stated, is given as of December 28, 1970. The costs incurred in the preparation and mailing of both the proxies and this Information Circular will be borne by Houston.

## **PURPOSE OF MEETING**

At the Meeting the shareholders will consider and take action with respect to the adoption of the following Special Resolution:

"BE IT RESOLVED as a Special Resolution THAT:

1. the Agreement of Amalgamation between Houston and Ensign Oils Limited dated December 7, 1970 is hereby approved and adopted.
2. the Directors and Officers of Houston are hereby authorized and empowered on Houston's behalf to take all steps and proceedings necessary to carry the Agreement of Amalgamation into effect and to execute and deliver such applications, declarations and other documents incidental thereto, and to do such acts and things under the hand and seal of the Company as may be necessary or desirable therefor with full power and authority to amend, modify and change the form of the several transactions contemplated by the said Agreement of Amalgamation as in the opinion of Houston's counsel may be necessary or desirable to carry into effect the intent thereof."

There is enclosed a Notice of Special General Meeting and a form of proxy for use at the Meeting.

## **SUMMARY OF PROPOSED AMALGAMATION**

### **General**

A Memorandum of Agreement (the "Agreement of Amalgamation"), a copy of which is attached hereto between Houston and Ensign Oils Limited ("Ensign") providing for the amalgamation of such companies into an amalgamated Alberta corporation to be named **HOUSTON OILS LIMITED** (the "Amalgamated Company") has been approved by Houston's Directors and the Directors of Ensign and was executed on December 7, 1970. Mr. W. A. Clarke, a Director of both companies, refrained from voting in respect of such approval and execution.

The amalgamation is expected to become effective on or about January 31, 1971, following issuance of a Certificate of Amalgamation by the Registrar of Companies for the Province of Alberta.

The Agreement of Amalgamation will be submitted to the shareholders of Ensign for adoption at a Special General Meeting of that company which will be held on January 25, 1971. The affirmative vote of at least three-fourths of the shares represented and voted at the Special General Meetings of Houston and Ensign, respectively, is required for the adoption of the Agreement of Amalgamation.

The Agreement of Amalgamation may be terminated and the amalgamation abandoned by the action of either Ensign or Houston if certain conditions as set forth in the Agreement of Amalgamation are not fulfilled. It is not contemplated that such termination or abandonment will occur for any reason other than failure on the part of Ensign or Houston to comply with its covenants and obligations thereunder.

### **Reasons for the Proposed Amalgamation**

In the opinion of the Boards of Directors of both Ensign and Houston the proposed amalgamation is in the best interests of the shareholders of both companies and the Amalgamated Company will provide a stronger financial and operational base than is available to the predecessor companies. The Amalgamated Company will also derive the advantages of combining Houston's numerous and wide-spread exploration projects and exploration acreage with Ensign's production income, reserves and exploration acreage, giving the Amalgamated Company substantially increased growth potential in both the oil and mining industries and a stronger position than the predecessor companies to undertake comprehensive programs of exploration.

In recommending the basis for the amalgamation the Boards of Directors of both Ensign and Houston have given consideration to the financial status of both companies and to all other material factors, including up-to-date valuations of oil and gas reserves and of unproven oil, gas and mineral rights, past operations, future growth opportunities and past market prices of the shares of the two companies. Copies of the reports made to Ensign by McDaniel Consultants (1965) Ltd., Petroleum Reservoir Analysts, Calgary, Alberta, and to Houston by James A. Lewis Engineering Co. Ltd., Petroleum Reservoir Analysts, Calgary, Alberta, are available for examination by shareholders at the head offices of the respective companies during normal business hours. It is the opinion of the Directors of both companies that the basis for the amalgamation as set forth in the Agreement of Amalgamation is fair and equitable to the shareholders of both companies.

#### **Shareholders' Rights Following the Amalgamation**

The Amalgamated Company's authorized capital will consist of 20,000,000 shares without nominal or par value not to be issued for an aggregate consideration in excess of \$20,000,000. The issued and outstanding shares upon completion of the amalgamation will be fully paid and non-assessable and each share will entitle the holder thereof to one vote on all matters submitted to the shareholders. In the event of a liquidation or dissolution, the holders of the shares will share rateably in any assets of the Amalgamated Company. There will be no pre-emptive rights to subscribe for any shares in the capital of the Amalgamated Company and holders of shares will be entitled to participate equally in such dividends as may be declared by the Board of Directors of the Amalgamated Company out of funds legally available for the payment thereof. It is not anticipated at this time that the Amalgamated Company will declare dividends in the near future. It is expected that the shares of the Amalgamated Company will be listed for trading on the Toronto Stock Exchange and the Canadian Stock Exchange on the effective date of the amalgamation.

The shares of the Amalgamated Company will not have cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of directors can elect all of the directors if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any person or persons to the Board of Directors.

Each share without nominal or par value of Houston will be converted into one share without nominal or par value of the Amalgamated Company and each share without nominal or par value of Ensign will be converted into one and one-third shares without nominal or par value of the Amalgamated Company.

On December 28, 1970, Ensign had 1,596,000 shares without nominal or par value outstanding and Houston had 1,995,000 shares without nominal or par value outstanding. Based on such numbers, when the amalgamation becomes effective, the Amalgamated Company will have 4,123,000 shares without nominal or par value outstanding.

Share certificates and share purchase warrants of Houston presently in the hands of its shareholders shall be deemed to represent and cover shares and share purchase warrants of the Amalgamated Company until such time as a revision of the form of share certificate and/or purchase warrant shall be required by the Toronto Stock Exchange, the Canadian Stock Exchange, or governmental authority.

As soon as the amalgamation becomes effective, The Canada Trust Company as Transfer Agent of the Amalgamated Company, will send to each shareholder of record of Ensign a letter of transmittal, together with return envelope and instructions, instructing each shareholder of Ensign to send his shares to the Transfer Agent and in return therefor the shareholder will receive the appropriate number of shares in the Amalgamated Company. Fractional shares of the Amalgamated Company will not be issued and, in lieu thereof, the shareholder will receive an amount of cash based upon the closing price of Houston shares on the Toronto Stock Exchange on the effective date of the Agreement of Amalgamation.

#### **TAX CONSEQUENCES**

Neither Houston nor its shareholders will recognize any gain or loss for Canadian income tax purposes by virtue of the proposed amalgamation and, if the United States Internal Revenue Service issues a ruling which has been requested, neither Houston nor its shareholders will recognize any gain or loss for United States income tax purposes and the United States Interest Equalization Tax will not be applicable.

## RIGHTS OF DISSENTING SHAREHOLDERS

Section 140a of The Companies Act of the Province of Alberta requires that, unless the Supreme Court of Alberta otherwise directs, each of the Amalgamating Companies shall notify in such manner as the Court may direct each of its shareholders who dissents from approving and adopting the Special Resolution of the time and place when Houston and Ensign intend to apply to the Supreme Court of Alberta for an Order approving the amalgamation. Upon the application, the Court shall hear and determine the matter and may approve the Agreement of Amalgamation as presented or may approve it subject to compliance with such terms and conditions as it thinks fit, having regard to the rights and interests of all parties including the dissenting shareholders and creditors. Under Alberta law, dissenting shareholders will have no appraisal rights unless the Court so directs. A negative vote alone is sufficient to establish a shareholder's dissent. Failure to vote against the Special Resolution will preclude a dissenting shareholder from exercising any rights under Section 140a.

## DIRECTORS OF THE AMALGAMATED COMPANY

The following table sets forth certain information regarding those persons who will form the Board of Directors of the Amalgamated Company, each such person to hold office until the first Annual General Meeting of the shareholders of the Amalgamated Company.

Name & Residence	Principal Occupation During The Past 5 Years	Shares Beneficially Owned Directly or Indirectly on December 28, 1970.	
		Houston Oils Limited	Ensign Oils Limited
Albert Edward Whitehead Calgary, Alberta	President of Houston Oils Limited, Calgary, Alberta.	340,500	Nil
James Arthur Millard Calgary, Alberta	Partner, MacKimmie Matthews, Barristers and Solicitors, Calgary, Alberta.	601	Nil
Louis Marx, Sr. Scarsdale, N.Y. U.S.A.	President, Louis Marx & Co., New York, New York, U.S.A.	85,001	Nil
William Andrew Clarke Oakville, Ontario	Vice President and Director of Gairdner & Company Limited, Toronto, Ontario.	1,200	5,000
Charles Franklin Agar Calgary, Alberta	Geological Engineer Gairdner & Company Limited, Calgary, Alberta.	1,500	Nil
John Arthur Downing Calgary, Alberta	President of Ensign Oils Limited, Calgary, Alberta.	500	283,000
Roger Lauren Ball Calgary, Alberta	Vice President of Ensign Oils Limited, Calgary, Alberta.	300	70,500

All of the above persons have held the principal occupations indicated for the last five years or more, with the exception of Mr. Agar who, prior to April 1969, was employed as an Engineer with Shell Canada Limited.

## **REMUNERATION OF DIRECTORS AND SENIOR OFFICERS**

### **Ensign**

The aggregate direct remuneration paid by Ensign and its subsidiaries to senior officers of Ensign for the fiscal year ended December 31, 1969 was \$41,300 and for the period from January 1, 1970 to September 30, 1970 was \$36,900. No remuneration was paid to Ensign directors, as such, during these periods. The aggregate remuneration estimated to be paid or payable by Ensign and its subsidiaries during the current financial year to senior officers of Ensign is \$49,200 and to the directors of Ensign, as such, is nil. No pension or retirement benefits are payable to senior officers or directors except under the Canada Pension Plan. Legal fees have been paid and in the future will be paid by Ensign to Saucier, Jones and Company, of whom Mr. H. F. Gain Q.C., one of the Directors of Ensign, is a partner.

### **Houston**

The aggregate direct remuneration paid by Houston to senior officers and employees for the fiscal year ended September 30, 1970 was \$61,880. No remuneration has been paid or is payable by Houston to any of the directors, as such. No remuneration has been paid or is payable to senior officers or directors of Houston by Bridger Petroleum Corporation. Legal fees have been paid and in the future will be paid by Houston to Messrs. MacKimmie Matthews, of whom Mr. J. A. Millard, one of the directors of Houston, is a partner.

The aggregate remuneration estimated to be paid or payable by Houston to senior officers and employees during the fiscal year beginning October 1, 1970 is \$67,140 and no remuneration is expected to be paid to any of the directors, as such. Houston does not contribute to any pension or retirement benefits for senior officers or directors except under the Canada Pension Plan.

## **OPTIONS**

### **Ensign**

There are no options outstanding or intended to be outstanding with respect to any securities of Ensign except an option on 50,000 shares granted to Gairdner & Company Limited ("Gairdner") pursuant to the terms of an Underwriting Agreement between Gairdner and Ensign dated August 19, 1968.

### **Houston**

There are no options outstanding or intended to be outstanding with respect to any securities of Houston other than:

- (i) 50,000 shares of Houston have been reserved for issuance under a stock option plan for its key employees. The stock option plan provides that options are to be granted, exercisable at the market price of the shares at the time the option is granted, for a period of 5 years provided the employee remains an employee of Houston. No options have been granted under the plan; and
- (ii) the 300,000 Share Purchase Warrants sold to Gairdner pursuant to the terms of an Underwriting Agreement between Gairdner and Houston dated December 1, 1969, 200,000 of which were distributed to the public subsequent to such Underwriting Agreement.

## **ESCROWED SHARES**

### **Ensign**

None of the shares of Ensign are subject to escrow Agreements.

### **Houston**

By escrow agreements each dated as at December 1, 1969 Pentagon Petroleum, Inc. ("Pentagon") and A. E. Whitehead, the President of Houston, agreed with Houston and with the Canada Trust Company, as Trustee, to place 400,000 shares and 300,000 shares of the capital stock of Houston respectively in escrow with the Trustee. The escrow agreements provide in effect that the said 400,000 shares and the said 300,000 shares will not be released from escrow, assigned, alienated, hypothecated or otherwise disposed of without the prior written consent of the Alberta and the Quebec Securities Commissions.

Pentagon subsequently, with consent, transferred its escrowed shares equally to Dan W. Lufkin and Louis Marx Jr., both of New York, two of the principal shareholders of Pentagon. The aforesaid Securities Commissions have now authorized the release from escrow of 30,000 shares to each to Messrs. Lufkin and Marx and 45,000 shares to Mr. Whitehead.

The terms of the aforesaid escrow agreements shall apply to the shares of the Amalgamated Company received by the above persons for their shares of Houston still held under escrow.

## **DESCRIPTION OF HOUSTON SHARE PURCHASE WARRANTS**

The Share Purchase Warrants are in bearer form and entitle the bearers thereof to purchase shares without nominal or par value of the capital stock of Houston at a price of \$3.50 per share at any time up to 4:30 p.m. local time at the place of exercise on December 15, 1972. After December 15, 1972 all Share Purchase Warrants not exercised will be void.

The Share Purchase Warrants are issued under an Indenture (the "Warrant Indenture") dated as of November 15, 1969 between Houston and the Canada Trust Company, as Trustee. The Warrant Indenture contains provisions for giving notice to bearers of Share Purchase Warrants in certain events and for adjustment of the number and/or class of shares issuable upon the exercise of such Share Purchase Warrants in

certain events, including consolidations, subdivisions and reclassifications of shares. The Warrant Indenture also contains provisions for adjustment of the exercise price in certain events including the issuance of shares of Houston below the exercise price in effect at the time of such issue and the issue of shares by way of stock dividend. Provision is also made in the Warrant Indenture for adjustment of the exercise price in the event of any capital reorganization or the amalgamation, consolidation or merger of Houston with or into another corporation. Houston covenants in the Warrant Indenture that it will at all times reserve sufficient unissued shares to satisfy the exercise right of the Share Purchase Warrants.

The rights of the holders of the Share Purchase Warrants may be modified. For that purpose, among others, the Warrant Indenture contains provisions for the holding of meetings of the holders of Share Purchase Warrants and for rendering resolutions passed at such meetings by the holders of a specified majority of the Share Purchase Warrants represented and voted at the meeting binding upon all holders of Share Purchase Warrants. Notice of such meetings may be given by publication.

Reference is made to the Warrant Indenture for a complete description of the terms applicable to the Share Purchase Warrants.

## PRINCIPAL HOLDERS OF SHARES

The following table sets forth the holdings of shares without nominal or par value of Ensign and Houston by each person owning of record, or to the knowledge of Ensign and Houston, beneficially, more than 10% of the shares of the respective companies. The table also sets forth the holdings of such persons and groups of shares without nominal or par value of the Amalgamated Company based upon the rate of conversion set forth under the heading "Shareholders' Rights Following the Amalgamation". The statements in the table as to shares owned are based upon information furnished to Ensign and Houston by the persons named or referred to therein.

Name and Address	Shares Beneficially Owned on December 30, 1970				Shares to be Beneficially Owned in the Amalgamated Company	
	Ensign Shares	Percentage of Class	Houston Shares	Percentage of Class	No. of Shares	Percentage of Class
John A. Downing 925 Royal Avenue, S.W. Calgary, Alberta.	283,000	17.7	500		377,833	9.2
Diatomic Research Ltd. (in voluntary liquidation) c/o S. H. Wood, Liquidator, 240 - 4th Ave. S.W. Calgary 1, Alberta	300,000 (Note 1)	18.8			400,000	9.7
Albert E. Whitehead 1424 Chardie Place S.W. Calgary 9, Alberta			340,500	17.1	340,500	8.3
Dan W. Lufkin c/o Donaldson, Lufkin and Jenrette 140 Broadway New York, New York			327,250	16.4	327,250	7.9
Louis Marx Jr. 767 - 5th Avenue New York, New York			291,250	14.6	291,250	7.1

Note 1. Dr. A. W. Nauss, a director of Ensign, is the beneficial owner of all the issued and outstanding shares of Diatomic Research Ltd. and may therefore be considered to be the beneficial owner of the Ensign shares owned by Diatomic Research Ltd.

## MATERIAL CONTRACTS

Neither Ensign nor Houston nor any of their subsidiaries have entered into any material contracts since the beginning of their last completed fiscal years, other than the Underwriting Agreement entered into between Houston and Gairdner, dated December 1, 1969, hereinbefore referred to.

## CAPITALIZATION

The following table sets forth the capitalization of Ensign and Houston each as of September 30, 1970, and the pro forma combined capitalization, on a pooling of interests basis:

	Ensign	Houston	Pro forma combined
Long term debt (including current maturities) (Note A)			
8¾ % bank loan .....	\$ 109,400	—	\$ 109,400
9¾ % bank loan .....	76,200	—	76,200
10½ % bank loan .....	359,403	—	359,403
Interest free development loan .....	312,960	—	312,960
Total long term debt .....	<u>\$ 857,963</u>	<u>—</u>	<u>\$ 857,963</u>
Capital stock			
Shares without nominal or par value (authorized 5,000,000 shares)	1,596,000 shares (Note B)		
Shares without nominal or par value (authorized 5,000,000 shares)		1,995,000 shares (Note C)	
Shares without nominal or par value (authorized 20,000,000 shares)			4,123,000 shares (Note D)

Note A: Although the bank loans are evidenced by demand notes the banks have indicated that they will accept repayments in monthly instalments which will amount to \$146,721 in 1971, \$150,668 in each of 1972 and 1973 and \$96,946 in 1974. The loans are secured by certain oil and gas properties.

The development loan due July 1, 1974, is repayable in quarterly instalments out of the proceeds of sale of gas from certain properties. The Company does not expect that any repayments will be required before September 30, 1971.

Note B: Does not include 50,000 shares of Ensign reserved for an option granted pursuant to an underwriting agreement dated August 19, 1968.

Note C: Does not include 300,000 shares of Houston reserved for the exercise of share purchase warrants issued under the provisions of an underwriting agreement dated December 1, 1969. Does not include a further 50,000 shares of Houston reserved for future issuance under the employee stock option plan.

Note D: Does not include the following shares in the Amalgamated Company reserved for exercise of options and warrants:

- (1) 66,666 shares on conversion of options previously granted by Ensign
- (2) 300,000 shares on conversion of warrants previously granted by Houston
- (3) 50,000 shares on conversion of options previously granted by Houston

## BOOK VALUE OF SHARES

The following table sets forth the book value per common share of Ensign and Houston as of September 30, 1970, and the pro forma book value per common share of the Amalgamated Company as of September 30, 1970:

Ensign .....	\$1.33
Ensign restated from the full cost method of accounting to conform with the accounting practices followed by Houston .....	\$1.16
Houston .....	\$1.20
Pro forma Amalgamated Company .....	\$1.03

The book values per share do not necessarily reflect the fair market value of the respective assets of Ensign and Houston.

## MARKET PRICE OF SHARES

Both Ensign and Houston shares are listed on the Toronto Stock Exchange and Houston's shares are also listed on the Canadian Stock Exchange. The following table sets forth the high and low prices of Ensign and Houston shares on the Toronto Stock Exchange during the periods indicated.

1970	Ensign		Houston (1)	
	High	Low	High	Low
First Quarter .....	\$3.80	\$2.20	\$3.25	\$2.90
Second Quarter .....	2.50	1.00	3.00	1.00
Third Quarter .....	2.95	1.50	3.00	1.52
Fourth Quarter to November 30. ....	2.95	2.20	3.15	2.25

Note 1. Houston shares were not listed during the first two months of 1970.

On December 28, 1970 the closing sale prices of Ensign shares and Houston shares on the Toronto Stock Exchange were \$2.40 and \$2.08, respectively.

**ENSIGN OILS LIMITED  
AND  
HOUSTON OILS LIMITED**

**PRO FORMA COMBINED STATEMENT OF INCOME (UNAUDITED)**

The following pro forma statement of income gives effect to the transactions contemplated herein by combining, on a pooling of interests basis, the results of operations of Ensign Oils Limited and Houston Oils Limited for the five years ended September 30, 1970. This statement should be read in conjunction with other financial statements and related notes of the two companies included elsewhere in this Proxy Statement.

		Years Ended September 30			
	1970	1969	1968	1967	1966
					(Note 1)
<b>Revenues</b>					
Oil and gas production (net) .....	\$ 268,999	\$ 144,837	\$ 105,893	\$ 110,379	\$ 49,246
Exploratory ventures and lease sales .....	604,369	152,344	81,109	77,049	122,566
Profit on sale of producing properties .....	58,045	136,037	232,380	—	3,994
Other .....	115,692	114,931	23,442	17,255	32,920
	<u>1,047,105</u>	<u>548,149</u>	<u>442,824</u>	<u>204,683</u>	<u>208,726</u>
<b>Expenses</b>					
Cost of exploratory ventures and lease sales .....	397,236	58,967	67,065	48,017	39,117
Unproductive development, property abandoned and geological and geophysical expenses .....	674,225	175,064	13,480	45,526	6,490
Lease rentals .....	64,158	60,554	37,811	5,385	6,185
General and administrative expenses (net) .....	312,226	163,770	113,374	76,673	52,451
Depletion .....	96,543	28,377	31,938	38,190	13,543
Depreciation .....	48,131	34,795	20,526	21,538	10,262
Interest .....	42,519	4,199	4,824	3,518	1,850
	<u>1,635,038</u>	<u>525,726</u>	<u>289,018</u>	<u>238,847</u>	<u>129,898</u>
	<u>(587,933)</u>	<u>22,423</u>	<u>153,806</u>	<u>34,164</u>	<u>78,828</u>
Income taxes .....	—	—	318	—	2,234
Pro forma net income (loss) .....	<u>\$ (587,933)</u>	<u>\$ 22,423</u>	<u>\$ 153,488</u>	<u>\$ 34,164</u>	<u>\$ 76,594</u>
Pro forma net income (loss) per share (Note 2) .....	<u>(14.7c)</u>	<u>.8c</u>	<u>8.4c</u>	<u>2.2c</u>	<u>5.1c</u>

Note 1: The year ended September 30, 1966, figures include the earnings of Ensign Oils Limited from the commencement of operations, January 19, 1966, to September 30, 1966.

Note 2: The pro forma net income (loss) per share is based on the weighted average of shares outstanding during the year for each company, adjusted for stock splits, and giving effect to the share exchanges contemplated in this Proxy Statement. Based on imputed earnings of 6% on proceeds, the exercise of the share purchase warrants issued by each company would not have a dilutive effect on net income (loss) per share.

Note 3: For purposes of inclusion in the pro forma combined statement of income the accounts of Ensign Oils Limited have been retroactively restated from the full cost method of accounting to conform with the accounting practices followed by Houston Oils Limited. As a result pro forma combined income for the five years ended September 30, 1970 has been reduced (increased) as follows:

1966 .....	\$ (2,484)	
1967 .....	30,940	
1968 .....	43,693	
1969 .....	53,523	
1970 .....	138,379	\$ 264,051

**ENSIGN OILS LIMITED**  
**AND**  
**HOUSTON OILS LIMITED**

**PRO FORMA COMBINED CONDENSED BALANCE SHEET (UNAUDITED)**  
**at September 30, 1970**

The following pro forma balance sheet gives effect as at September 30, 1970, to the amalgamation, on a pooling of interests basis, of Ensign Oils Limited and Houston Oils Limited. This balance sheet should be read in conjunction with other financial statements and related notes of the two companies included elsewhere in this Proxy Statement.

	<u>Ensign Oils Limited</u>	<u>Houston Oils Limited</u>	<u>Pro Forma Adjustment (Note A)</u>	<u>Pro Forma Combined</u>
<b>Assets</b>				
Total current assets .....	\$ 383,339	\$ 446,435		\$ 829,774
Investments and other assets .....	75,096	233,874		308,970
Property and equipment — net .....	2,743,839	2,044,244	\$ (264,051)	4,524,032
	<u>\$3,202,274</u>	<u>\$2,724,553</u>	<u>\$ (264,051)</u>	<u>\$5,662,776</u>
<b>Liabilities</b>				
Total current liabilities .....	276,655	322,525		599,180
Prepayment of future gas deliveries .....	96,220	—		96,220
Long term debt .....	711,242	—		711,242
	<u>1,084,117</u>	<u>322,525</u>		<u>1,406,642</u>
<b>Shareholders' Equity</b>				
Share capital .....	1,974,850	2,704,941		4,679,791
Retained earnings (deficit) .....	143,307	(302,913)	(264,051)	(423,657)
	<u>2,118,157</u>	<u>2,402,028</u>		<u>4,256,134</u>
	<u>\$3,202,274</u>	<u>\$2,724,553</u>	<u>\$ (264,051)</u>	<u>\$5,662,776</u>

Note A: The pro forma adjustment gives effect to the restatement of the accounts of Ensign Oils Limited (See Note 3 to pro forma combined statement of income).

## ENSIGN OILS LIMITED

### General

Ensign Oils Limited ("Ensign") was incorporated on January 22, 1965 by Certificate of Incorporation under The Companies Act (Alberta). The authorized capital of Ensign now consists of 5,000,000 shares without nominal or par value to be issued for a maximum price or consideration not exceeding in the aggregate the sum of \$15,000,000. Ensign commenced operations in January 1966. Its head office is located at 1050 Elveden House, Calgary 2, Alberta. It is registered to carry on business in the four Western Canadian Provinces, the Yukon Territory and the Northwest Territories.

Ensign's wholly-owned subsidiary, Ensign Oils, Inc. ("Ensign Inc.") was incorporated under the laws of the State of Montana and is registered to carry on business in that State and in Texas, New Mexico and Alaska.

In February 1970 Ensign acquired all of the issued and outstanding shares of Bluenose Oils Ltd. ("Bluenose"), an Alberta company. Bluenose is registered to carry on business in Alberta.

Ensign Inc. and Bluenose are sometimes herein collectively called the "subsidiaries".

### Operations of Ensign

Ensign and its subsidiaries are engaged in the business of exploration for and development of commercial quantities of oil, natural gas, uranium and other metals.

Ensign owns interests in producing oil wells in Manitoba, Saskatchewan and Alberta and in producing gas wells in Alberta, petroleum and natural gas rights in several areas of the four Western Canadian Provinces, the Yukon Territory, the Northwest Territories and the Adriatic area of Italy. It also owns interests in mineral permits and claim blocks in Saskatchewan and the Northwest Territories.

Ensign Inc. owns interests in certain gas fields in Montana, and in a producing oil well in Texas and a producing oil well in New Mexico. It also owns interests in petroleum and natural gas rights in areas of Montana, New Mexico, Alaska, Oklahoma and Michigan and in mining claims in Colorado and Utah.

Bluenose owns interests in certain producing oil wells in the Hamilton Lake field in Alberta and in small gross overriding royalties on certain oil and gas and other mineral permits in the Northwest Territories.

### Oil and Gas Properties

Ensign and its subsidiaries have working interests in producing oil wells in eight oil pools and three gas pools in Canada and the United States of America and a gross royalty in one gas well in Canada, summarized in the following table:

<u>Location</u>		<u>Interests of the Company</u>	
	<u>Type of Ownership</u>	<u>Gross or Total Wells</u>	<u>Expressed as Net Wells</u>
<b>Producing Oil Wells</b>			
North Virden—Scallion, Manitoba	Leasehold	11	5.35
Benson, Saskatchewan	Leasehold	2	0.50
Browning, Saskatchewan	Leasehold	2	2.00
Virgo, Alberta	Leasehold	2	0.25
Hamilton Lake, Alberta	Leasehold	11	6.50
Parks-Scurry County, Texas	Leasehold	1	0.13
Tiger Ridge, Montana	Leasehold	1	0.10
Chaves County, New Mexico	Leasehold	1	0.19
Total		<u>31</u>	<u>15.02</u>
<b>Producing Gas Wells and Capped Gas Wells</b>			
Tiger Ridge Field, Montana	Leasehold	46	4.6
Bullhook Field, Montana	Leasehold	37	1.85
Oyen Field (14.9% of Oyen Gas Unit #3), Alberta	Permit & Leasehold	5	0.75
Provost Field, Alberta	Leasehold	1	8% gross royalty
Total		<u>89</u>	<u>7.02</u>

## Crude Oil and Natural Gas Production

The following table sets forth the annual net production by Ensign and its subsidiaries of crude oil and natural gas and the income accruing to Ensign and its subsidiaries for the period from March 2, 1966 to September 30, 1970.

<u>Year</u>	<u>Natural Gas (Mcf)</u>	<u>Crude Oil (Barrels)</u>	<u>Net Income After Royalties and Operating Costs</u>
1966		14,648	\$ 39,600
1967		42,204	71,524
1968		43,830	79,184
1969	115,434	62,465	135,198
1970 to Sept. 30		88,892	120,808

The gas production shown for 1969 accrued to Ensign Inc. from its interests in the Havre Field in Montana. These interests were sold on December 1, 1969. Oyen Gas Unit No. 3, in which Ensign has a 14.9% interest went on stream on October 31, 1970 and therefore the resultant cash flow is not reflected in this table. Ensign Inc. has received development loans in the amount of \$290,149.00 (U.S.) and prepayments for the period from July 1 to September 30, 1970 amounting to \$93,822.00 (U.S.) on its interests in shut-in gas wells in the Tiger Ridge and Bullhook Gas Fields in Montana pursuant to a gas purchase agreement between Northern Natural Gas and Ensign Inc.

## Oil and Gas Reserves

McDaniel Consultants (1965) Ltd., Petroleum Reservoir Analysts, Calgary, Alberta, in a report dated December 9, 1970 have estimated the oil and gas reserves, net revenue and present worth of the net revenue accruing to Ensign and its subsidiaries as of September 30, 1970 to be as follows:

<u>Oil Reserves</u>	<u>Estimated Net Share of Remaining Reserves</u>	<u>Estimated Share of Future Net Revenue to be Derived From Reserves</u>	
		<u>Not Discounted</u>	<u>Discounted at 9% Per Annum</u>
Proved	1,718,400 bbls.	\$2,408,900	\$1,522,500
Probable	1,457,700 bbls.		297,000
Total	3,176,100 bbls.	\$2,408,900	\$1,819,500
<u>Saleable Gas Reserves</u>			
Proved	39,440 Mmcf	\$4,841,100	\$2,174,000
Probable	6,560 Mmcf		108,400
Total	46,000 Mmcf	\$4,841,100	\$2,282,400
Total Proved and Probable Oil and Gas Reserves		\$7,250,000	\$4,101,900

Note 1. "Net revenue" is gross revenue less payment of royalties, all field operating costs and capital costs for required future production. No net revenue has been estimated for probable reserves.

Note 2. "Mmcf" means 1,000,000 cubic feet at 14.73 psia and 60°F (for U.S. properties) and 14.4 psia and 60°F (for Canadian properties).

Note 3. "Barrels" means barrels of crude oil at standard conditions and 34.972 Canadian gallons per barrel.

## Non-Producing Properties

Ensign and its subsidiaries have working, net carried and royalty interests in oil and gas leases and permits in Manitoba, Saskatchewan, Alberta, the Northwest Territories, several states of the United States of America and Italy, located in the following areas.

Location	Type of Ownership	Gross Acres	Net Acres	Net Leasable Acres
<b>Working Interests</b>				
<b>Manitoba</b>				
North Virden Scallion	Leasehold	1,720	1,131	1,131
Daly	Leasehold	320	320	320
<b>Saskatchewan</b>				
Benson	Leasehold	2,239	460	460
Browning	Leasehold	1,280	800	800
Antelope Lake	Leasehold	39,762	3,726	3,726
Fry's	Leasehold	480	120	120
Moose Mountain	Leasehold	320	240	240
South Forget	Leasehold	1,764	655	655
Chaplin Lake	Leasehold	1,200	290	290
	Permit	4,480	1,120	1,120
<b>Alberta</b>				
Tilley	Leasehold	640	96	96
Big Lake	Leasehold	320	74	74
Pine Lake	Leasehold	468	55	55
Pembina	Leasehold	960	264	264
Carbon	Leasehold	2,080	453	453
Acme	Leasehold	800	800	800
Bonnie Glen	Leasehold	639	639	639
Rainbow	Leasehold	2,080	390	390
Virgo	Leasehold	1,440	173	173
Haddock	Leasehold	320	160	160
Hamilton Lake	Leasehold	2,640	1,458	1,458
Oyen	Leasehold	640	107	107
Oyen	Permit	15,680	3,136	3,136
Provost	Leasehold	1,280	640	640
Sedalia	Leasehold	1,920	960	960
Scollard	Leasehold	1,120	440	440
Wildmere	Leasehold	2,400	2,400	2,400
Blackstone	P & NG Reservation	23,200	1,740	870
Sibbald	Leasehold	7,840	2,616	2,616
Christmas Creek	Leasehold	2,080	156	156
<b>British Columbia</b>				
Monkman Pass	P&NG Drilling Reservation	53,022	19,883	9,942
<b>Northwest Territories</b>				
Viscount Melville Sound	Permits	140,057	35,014	17,507
Foxe Basin	Permits	192,454	96,227	48,114
Keele River (net carried interest)	Permit	55,167	2,067	1,039
<b>Yukon</b>				
Whitehorse	Permits	614,340	153,585	76,793
<b>United States</b>				
<b>Montana</b>				
Tiger Ridge	Leasehold	117,983	11,798	11,798
*Bullhook	Leasehold	92,202	4,610	4,610
Columbus	Leasehold	33,246	14,384	14,384
Chouteau	Leasehold	3,772	3,772	3,772
East Tiger Ridge	Leasehold	17,176	4,723	4,723

\* 26,188 acres subject to 10% carried interest and 2% gross override.

Location	Type of Ownership	Gross Acres	Net Acres	Net Leasable Acres
<b>Alaska</b>				
Bristol Bay	Leasehold	5,112	5,112	5,112
<b>Oklahoma</b>	Leasehold	1,120	140	140
<b>Texas</b>	Leasehold	3,374	421	421
<b>New Mexico</b>	Leasehold	477	477	477
<b>Italy</b> (Adriatic onshore and offshore)	Permits	107,287	10,729	10,729
<b>Total</b>		<u>1,558,901</u>	<u>388,561</u>	<u>234,310</u>

	Type of Ownership	Gross Acres	Ensign Interest
<b>Royalty Interests</b>			
<b>Alberta</b>			
Mundare	Leasehold	2,760	8%
	Leasehold	1,440	10%
Provost	Leasehold	1,920	8%
<b>Northwest Territories</b>			
Franklin Bay	Permit	88,428	1.565%
Keele River	Permit	27,373	0.75%
Roote River	Permits	117,630	0.75%
Beaufort Sea	Permits	525,949	0.125%
<b>Total</b>		<u>765,500</u>	

### Drilling and Exploration

Ensign and its subsidiaries have participated in the drilling of wells in Alberta, Saskatchewan, Manitoba, Montana, Ontario, Texas, Oklahoma and Alaska during the years 1966 through 1970. The number of such wells drilled and/or in which they participated during this period are as follows:

For the 12 months ended December 31.	Total Wells	Producing Oil Wells	Shut-In Gas Wells	Dry Holes
1966 —	18	9	5	4
1967 —	43	3	20	20
1968 —	19	2	11	6
1969 —	95	9	42	44
<b>For the 9 months ended September 30, 1970 —</b>	<b>45</b>	<b>2</b>	<b>10</b>	<b>33</b>

The amounts expended by Ensign and its subsidiaries on drilling, exploration and development activity are tabulated below:

For the 12 months ended December 31	
1966 —	\$231,249
1967 —	174,996
1968 —	274,495
1969 —	754,895
<b>For the 9 months ended Sept. 30, 1970</b>	<b>563,709</b>

The amounts expended by Ensign and its subsidiaries for acquisition of leasehold and other interests are tabulated below:

For the 12 months ended December 31.	
1966 —	\$ 14,528
1967 —	78,296
1968 —	343,292
1969 —	149,866
<b>For the 9 months ended Sept. 30, 1970</b>	<b>57,714</b>

## **Mining Permits, Claim Blocks, Mining Claims**

### **Saskatchewan**

#### **Wollaston Lake**

Ensign acquired a 50% interest in Ensign Fort Reliance Permit No. 2 in the Wollaston Lake area of northeastern Saskatchewan from the Government of Saskatchewan in December, 1968 because of its proximity to a reported uranium discovery by Gulf Oil Minerals. In 1969 it was farmed out to Great Plains Development Company of Canada Ltd., which has completed the first and second year exploration on the Permit required by the Government of Saskatchewan and has committed to the third year expenditure. If Great Plains Development Company of Canada Ltd. spends a total of \$300,000 Ensign's interests will be reduced to a 20% interest therein.

#### **Carswell Lake**

Ensign has a 100% interest in Claim Block No. 2357 covering 3,170 acres which was taken by Ensign in the fall of 1968 and acquired for its uranium potential. Sufficient work has been done to keep the Claim Block in good standing until the fall of 1971 and is being retained because of activity by others in the area.

### **Northwest Territories**

#### **Baker Lake**

Ensign has varying interests in three Exploratory Permits which it acquired as a co-applicant to the Government of Canada in 1969. Sufficient work has been done on these Exploratory Permits to keep them in good standing until March 1972.

	<u>Area of Permit</u>	<u>Ensign Net Acres</u>
Permit 92 —	41,400	14,490
Permit 93 —	82,790	33,116
Permit 116—	55,050	22,020

#### **Rankin Inlet**

Ensign has a 33.4% interest in 402 mining claims in the vicinity of the town of Rankin Inlet, Northwest Territories. These claims were staked by Ensign and partners in 1969 and 1970 and were acquired for their copper and nickel potential. Intensive airborne and ground geophysical and geological exploration was done in 1970 and anomalous areas have been mapped. No drilling has been done to date.

### **Colorado and Utah**

Ensign Inc., owns a 15% working interest in 745 unpatented mining claims in San Miguel County, Colorado and 749 unpatented mining claims in San Juan County in Utah subject to its proportionate share of a 15% net carried interest and varying royalties.

The exploratory effort in San Miguel County, Colorado discovered a commercial deposit of uranium at a depth of 400 feet and this deposit is now being mined and started producing income for Ensign Inc. and its partners in October 1970. No economic mineral deposits were found by the exploratory drilling in San Juan County, Utah.

## AUDITORS' REPORT

To the Directors of  
Ensign Oils Limited

We have examined the consolidated balance sheet of Ensign Oils Limited and its subsidiary as at December 31, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the four years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the four years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada.  
April 2, 1970

CLARKSON, GORDON & Co.  
Chartered Accountants.

# **ENSIGN OILS LIMITED**

## **CONSOLIDATED BALANCE SHEET**

	<b>ASSETS</b>	
	<b>September 30, 1970</b>	<b>December 31, 1969</b>
	<b>(unaudited)</b>	
<b>CURRENT:</b>		
Cash .....	\$ 35,740	\$ 68,489
Short term deposits .....		367,170
Marketable securities at cost which approximates market .....	132,616	132,616
Accounts receivable —		
Trade .....	208,290	280,702
Sale of properties .....		117,698
Prepaid expenses .....	6,693	6,277
	<u>383,339</u>	<u>972,952</u>
<b>DRILLING AND OTHER DEPOSITS</b> .....	<u>75,096</u>	<u>63,558</u>
<b>PROPERTY AND EQUIPMENT (Note 2):</b>		
Oil and gas properties at cost less accumulated depletion of \$116,118, (1969 - \$69,651) .....	2,265,559	1,539,959
Production and other equipment at cost less accumulated depreciation of \$73,237, (1969 - \$36,699) .....	254,825	92,697
Mineral claims at cost .....	223,455	125,757
	<u>2,743,839</u>	<u>1,758,413</u>
	<u><u>\$3,202,274</u></u>	<u><u>\$2,794,923</u></u>
<b>LIABILITIES</b>		
<b>CURRENT:</b>		
Accounts payable and accrued charges .....	\$ 129,934	\$ 257,180
Long term debt due within one year .....	146,721	
	<u>276,655</u>	<u>257,180</u>
<b>PREPAYMENT OF FUTURE GAS DELIVERIES</b> .....	<u>96,220</u>	
<b>LONG TERM DEBT (Note 4)</b> .....	<u>711,242</u>	<u>594,710</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital (Note 3) —		
Authorized — 5,000,000 shares of no par value		
Issued — 1,596,000 shares (1969—1,500,000 shares) .....	1,974,850	1,677,250
Retained earnings .....	143,307	265,783
	<u>2,118,157</u>	<u>1,943,033</u>
On behalf of the Board:	<u><u>\$3,202,274</u></u>	<u><u>\$2,794,923</u></u>

John A. Downing, Director.

Roger L. Ball, Director.

(See accompanying notes.)

# ENSIGN OILS LIMITED

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Nine months ended September 30		Years ended December 31			
	1970	1969	1969	1968	1967	1966
	(unaudited)					
Retained earnings at beginning of period .....	\$265,783	\$224,305	\$224,305	\$252,190	\$ 25,086	\$ nil
Net income (loss) for the period .....	(122,476)	17,631	41,478	2,463	227,104	25,086
Share issue expenses .....				(30,348)		
Retained earnings at end of period ....	<u>\$143,307</u>	<u>\$241,936</u>	<u>\$265,783</u>	<u>\$224,305</u>	<u>\$252,190</u>	<u>\$ 25,086</u>

(See accompanying notes.)

# ENSIGN OILS LIMITED

## CONSOLIDATED STATEMENT OF INCOME

	Nine months ended September 30		Years ended December 31			
	1970	1969	1969	1968	1967	1966
	(unaudited)					
INCOME:						
Oil and gas sales after royalties .....	\$194,861	\$ 98,436	\$171,917	\$109,686	\$108,405	\$ 48,574
Investment and other income .....	13,529	35,454	43,639	22,200	5,050	13,368
	<u>208,390</u>	<u>133,890</u>	<u>215,556</u>	<u>131,886</u>	<u>113,455</u>	<u>61,942</u>
DEDUCT:						
Operating expenses .....	74,053	25,039	36,719	30,502	36,881	8,974
General and administrative expenses .....	84,545	61,793	91,922	65,762	25,706	304
Interest on long term debt .....	39,649	1,190	2,828	—	—	—
	<u>198,247</u>	<u>88,022</u>	<u>131,469</u>	<u>96,264</u>	<u>62,587</u>	<u>9,278</u>
Cash income from operations .....	<u>10,143</u>	<u>45,868</u>	<u>84,087</u>	<u>35,622</u>	<u>50,868</u>	<u>52,664</u>
DEDUCT:						
Depletion .....	45,862	15,542	29,287	23,659	9,340	16,358
Depreciation .....	31,248	12,695	13,322	9,500	8,634	6,211
Abandoned mineral claims .....	55,509					5,009
	<u>132,619</u>	<u>28,237</u>	<u>42,609</u>	<u>33,159</u>	<u>17,974</u>	<u>27,578</u>
Net income (loss) before extraordinary item .....	(122,476)	17,631	41,478	2,463	32,894	25,086
Gain on sale of gas properties .....					194,210	
Net income (loss) (Note 5) .....	<u>\$(122,476)</u>	<u>\$ 17,631</u>	<u>\$ 41,478</u>	<u>\$ 2,463</u>	<u>\$227,104</u>	<u>\$ 25,086</u>
Per common share (Note A):						
Net income (loss) before extraordinary item .....	(7.8c)	1.2c	2.8c	0.3c	4.7c	3.8c
Gain on sale of gas properties .....	—	—	—	—	27.6c	—
Net income (loss) .....	<u>(7.8c)</u>	<u>1.2c</u>	<u>2.8c</u>	<u>0.3c</u>	<u>32.3c</u>	<u>3.8c</u>

### Note A.

Earnings per common share are based on the average number of shares outstanding in each period as adjusted for the 3 for 1 stock split in June 1968. Fully diluted earnings per share for the year ended December 31, 1967, assuming that the then outstanding convertible debenture was converted into common shares as of January 1, 1967, would have amounted to 3.4c on the net income before extraordinary item and 19.9c on the extraordinary item.

(See accompanying notes.)

# ENSIGN OILS LIMITED

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Nine months ended September 30		Years ended December 31			
	1970	1969	1969	1968	1967	1966
	(unaudited)					
Source of funds:						
Cash income from operations ----\$	10,143	\$ 45,868	\$ 84,087	\$ 35,622	\$ 50,868	\$ 52,664
Bank loan -----	364,600		300,500			
Development loan -----	18,750	294,114	294,210			
Proceeds from sale of properties -----	4,667	181,014	400,650		194,210	
Prepayment of future gas deliveries -----	96,220					
Issue of capital stock -----	297,600	110,000	110,000	1,444,625	4,100	118,625
Issue of Debenture (net of conversion to capital stock) -----					(4,000)	93,875
	<u>791,980</u>	<u>630,996</u>	<u>1,189,447</u>	<u>1,480,247</u>	<u>245,178</u>	<u>265,164</u>
Application of funds:						
Purchase of shares of subsidiary (Note 1) -----	350,865					
Add working capital deficiency at date of acquisition -----	85,889					
	<u>436,754</u>					
Acquisition of property and equipment -----	597,070	650,068	1,169,731	612,994	250,650	247,009
Repayments of debenture -----				89,875		
Payments on long term debt ----	361,719					
Drilling and other deposits ----	5,525	10,955	(32,620)	52,029	29,535	14,614
Share issue expense -----				30,348		
	<u>1,401,068</u>	<u>661,023</u>	<u>1,137,111</u>	<u>785,246</u>	<u>280,185</u>	<u>261,623</u>
Increase (decrease) in working capital -----	\$ (609,088)	\$(30,027)	\$ 52,336	\$ 695,001	\$(35,007)	\$ 3,541

(See accompanying notes.)

# **ENSIGN OILS LIMITED**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ensign Oils Inc., a United States corporation, and Bluenose Oils Ltd., an Alberta Company.

On February 11, 1970, all the outstanding common shares of Bluenose Oils Ltd. were acquired for \$53,265 cash and 96,000 shares of the Company valued at \$297,600. The excess of the cost of the shares of Bluenose Oils Ltd. over the net book value of its assets at date of acquisition is attributable to property and equipment and is included therein in the accompanying consolidated balance sheet.

The accounts of the foreign subsidiary have been converted to Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange on December 31, 1969 and September 30, 1970, other assets and liabilities at the rate of exchange on the date of the transaction and income and expenses at the average rate of exchange for the period. The net exchange differential which is not material in amount has been included in income.

### **2. Accounting Practice**

The companies follow the full cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated reserves of oil and gas. Depreciation of production and other equipment is provided on the straight line basis at rates designed to amortize their cost over their estimated useful lives.

### **3. Share Capital**

By special resolution dated June 16, 1968, the share capital of the company was altered by subdividing each share into three shares so that the authorized capital increased from 700,000 shares without nominal or par value to 2,100,000 shares without nominal or par value and the issued share capital increased from 250,000 shares to 750,000 shares.

By special resolution dated December 22, 1969 the authorized share capital was increased from 2,100,000 shares of no par value to 5,000,000 shares of no par value.

Changes in share capital issued and outstanding from date of commencement of operations on January 19, 1966 to September 30, 1970 are as follows:

(All shares issued prior to June 16, 1968 have been restated to reflect the three for one subdivision on that date).

	Number of shares issued	Share Capital
1966:		
Shares issued for cash and outstanding on date of commencement of operations January 19, 1966 .....	675,000	\$ 112,500
Issue of shares upon conversion of Debenture payable .....	18,375	6,125
1967:		
Issue of shares upon conversion of Debenture payable .....	12,000	4,000
1968:		
Issued for cash .....	744,625	1,444,625
1969:		
Issued for cash upon exercise of stock option .....	50,000	110,000
Balance December 31, 1969 .....	1,500,000	1,677,250
1970:		
Issued for shares of Bluenose Oils Ltd. (see Note 1) .....	96,000	297,600
Balance September 30, 1970 .....	1,596,000	\$1,974,850

At December 31, 1969 and September 30, 1970, 50,000 shares of the Company's capital stock were reserved under the terms of an option granted pursuant to an underwriting agreement dated August 19, 1968. The option is exercisable at \$2.20 per share to August 31, 1973.

#### 4. Long Term Debt

Long term debt due after one year consists of the following:

	September 30, 1970	December 31, 1969
8¾ % Bank loan .....	\$ 78,200	—
9¼ % Bank loan .....	—	\$ 300,500
9¾ % Bank loan .....	55,800	—
10½ % Bank loan (\$249,700 U.S.) .....	264,282	—
Interest free development loan .....	312,960	294,210
	<u>\$ 711,242</u>	<u>\$ 594,710</u>

Although the bank loans are evidenced by demand notes the banks have indicated that they will accept repayments in monthly instalments which will amount to \$146,721 in 1971, \$150,668 in 1972 and 1973 and \$96,946 in 1974. The loans are secured by certain oil and gas properties.

The development loan due July 1, 1974 is repayable in quarterly instalments out of the proceeds of sale of gas from certain properties. The Company does not expect that any repayments will be required before September 30, 1971.

#### 5. Income Taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to earnings. As a result, income taxes otherwise payable during the four years ended December 31, 1969, and the nine months ended September 30, 1970 have been eliminated, and at that date, accumulated expenditures of \$1,751,000 were available to be applied against future taxable income. For the four years ended December 31, 1969 and the nine months ended September 30, 1970, capital cost allowances claimed are not significantly different from depreciation recorded in the accounts.

The companies do not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs, in excess of the related charges in the accounts and this view conforms with general practice in the oil and gas industry. This practice differs from the tax allocation recommendation of The Canadian Institute of Chartered Accountants that income tax be provided for on the basis of income reported in the accounts.

If the tax allocation basis has been followed for all timing differences between taxable income and reported income for the four years ended December 31, 1969 and the nine months ended September 30, 1970, the provision for deferred income taxes and net income would have been as follows:

	Nine months ended September 30		Years ended December 31			
	1970	1969	1969	1968	1967	1966
Net income (loss) per consolidated statement of income .....	\$(122,476)	\$ 17,631	\$ 41,478	\$ 2,463	\$227,104	\$ 25,086
Provision for deferred income taxes ..	(28,200)	3,100	7,400	nil	55,000	3,500
Net income .....	<u>\$( 94,276)</u>	<u>\$ 14,531</u>	<u>\$ 34,078</u>	<u>\$ 2,463</u>	<u>\$172,104</u>	<u>\$ 21,586</u>

The accumulated income tax deferrals covering the current and prior years would have amounted to \$57,400 at September 30, 1970.

#### 6. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of the directors and senior officers of the company during the four years and nine months ended September 30, 1970 was:

1966 - nil; 1967 - \$18,700; 1968 - \$26,400; 1969 - \$41,300; 1970 - \$36,900.

## HOUSTON OILS LIMITED

### General

Houston Oils Limited ("Houston") was incorporated on May 21, 1951, by Certificate of Incorporation under the Companies Act (Alberta). The authorized capital of Houston now consists of 5,000,000 shares without nominal or par value to be issued for a maximum price or consideration not exceeding in the aggregate the sum of \$5,000,000. Its head office is located at 950 Three Calgary Place, 355 - 4th Avenue S.W., Calgary, Alberta. It is registered to carry on business in the four Western Canadian Provinces, the Yukon Territory and the Northwest Territories.

Houston's wholly owned subsidiary, Bridger Petroleum Corporation ("Bridger") was incorporated under the laws of the State of Wyoming and is registered to conduct its business in the States of Alaska, Montana, North Dakota, South Dakota and Wyoming. References herein to Houston include Bridger, unless otherwise stated.

### Operations of Houston

Houston is engaged in exploration for and development of petroleum and natural gas in various parts of Canada, including the Arctic Islands area, the Dutch North Sea area, Arabian Gulf (Abu Dhabi), Oklahoma, Kansas, Alaska, Montana, North Dakota, South Dakota, and Wyoming. Houston has an interest in several Mineral Prospecting Permits covering lands in the Northwest Territories and offshore Alaska.

Houston's present and future policy will be to continue development of its proven oil and gas properties and exploration of presently held acreage and lands to be acquired in new areas, and to research and to locate drillable prospects, and to acquire leases, farm-ins and option agreements covering these prospects.

### Oil and Gas Properties

Houston has working interests in 35 producing oil wells and overriding royalty interests in 12 producing oil wells in Saskatchewan and additional working interests in other producing wells in Alberta and the United States of America, summarized in the following table:

Location		Interest of the Company	
	Type of Ownership	Gross or Total Wells	Expressed as Net Wells
Producing Oil Wells			
Plato, Saskatchewan	Leasehold	16	4.80
West Fosterton, Saskatchewan	Leasehold	9	0.64
Avon Hill, Saskatchewan	Leasehold	3	0.44
Doddsland-Braeburn, Saskatchewan	Leasehold	5	0.75
Gardenhead, Saskatchewan	Leasehold	1	1.00
Pinto, Saskatchewan	Leasehold	1	0.37
Major Co., Oklahoma	Leasehold	1	0.12
Plato, Saskatchewan	Overriding Royalty	8	(See note 1)
South Eureka, Saskatchewan	Overriding Royalty	4	3.5% gross royalty
Total		48	8.12
Producing Gas Wells and Capped Gas Wells			
Lait-Aden, Alberta	Leasehold	2	1.50
Matziwin-Verger, Alberta	Leasehold	6	1.39
Nancy, B.C.	Leasehold	1	0.25
Meade Co., Kansas	Leasehold	1	0.12
Birch Lake, Alberta	Royalty	1	6.25% gross royalty
Total		10	3.26

Note 1: Overriding royalties vary from 28.5% of 2.5% to 28.5% of 1/200th of monthly production.

Houston also has a 25% working interest in one shut-in oil well in the Senlac Area of Saskatchewan. Because of the low gravity of the oil in this well and the long distance to pipeline facilities Houston does not plan to produce this well in the immediate future.

## Crude Oil and Natural Gas Production

The following table sets forth the annual net production by Houston of crude oil and natural gas for the period from October 1, 1964 to September 30, 1970:

Year	Gas (Mcf)	Barrels	Net Income after Royalty and Operating Costs
1964		2,020	\$ 2,050
1965		15,413	27,980
1966		18,461	31,097
1967		20,779	32,794
1968		19,064	26,697
1969		41,158	56,062
1970	348,683	54,352	86,390

## Oil and Gas Reserves

A report dated September 30, 1970 prepared by James A. Lewis Engineering Co. Ltd., Petroleum Reservoir Analysts, Calgary, Alberta, estimated the oil and gas reserves and net revenue which will accrue to Houston from production and its share of net revenue discounted at 9%, to be as follows:

		Estimated Company Share of Future Net Revenue To be Derived From Reserves	
	Estimated Company Net Share of Remaining Reserves	Not Discounted	Discounted at 9% Per Annum
Oil Reserves			
Proved -----	356,493	\$ 441,110	\$ 325,506
Probable -----	2,187,749	1,184,786	569,727
Total -----	2,544,242	1,625,896	895,233
Gas Reserves (Mcf)			
Proved -----	9,928,490	1,276,240	602,810
Probable -----	6,001,804	501,567	217,671
Total -----	15,930,294	\$1,777,807	\$ 820,481
Total Proved and Probable Oil and Gas Reserves		\$3,403,703	\$1,715,714

Note 1. "Net revenue" is gross revenue less usual costs of operation and payment of royalties.

Note 2. "Mcf" means one thousand cubic feet.

## Non-Producing Properties

Houston has the following interests in oil and gas leases, permits and drilling reservations, located in various areas of Canada, Alaska, the United States of America and overseas.

<u>General Location</u>	<u>Type of Ownership</u>	<u>Gross Acres (1)</u>	<u>Net Acres</u>	<u>Net Leasable Acres</u>
<b>Working Interests</b>				
<b>Canada East Coast</b>				
Labrador Shelf (Offshore)	Permits	1,603,865	400,966	200,483
Baffin Island (Offshore)	Permits	1,158,884	289,721	144,860
<b>Arctic Islands</b>				
McClure Strait	Permits	1,020,627	510,314	255,157
Lancaster Sound	Permits	995,528	663,685	331,842
Lancaster Strait	Permits	637,600	318,800	159,400
Ellef Ringnes Is. and Dundas Peninsula	Net Profits Interest (2)	737,400	11,061	5,530
<b>Hudson Bay</b>				
Foxe Basin	Permits	493,356	123,339	61,669
<b>Netherlands</b>				
Dutch North Seas (Block Q-11)	Permits	40,000	1,835	1,835
<b>Persian Gulf</b>				
Abu Dhabi	Permits	778,000	38,900	38,900(4)
<b>Manitoba</b>				
Hudson Bay	Net Profits Interest (2)	689,461	25,303	12,151
Hudson Bay	Permits	689,461	22,752	11,376
<b>Alberta</b>				
Aden (Lait)	Leasehold	1,280	960	960
Birch Lake	Leasehold	640	160	160
Craigmyle	Leasehold	4,000	864	864
Edson South	Leasehold	960	480	480
Matziwin	Leasehold	8,291	1,917	1,917
Twin River	Leasehold	2,091	697	697
Westlock	Leasehold	1,920	520	520
Whitford Lake	Leasehold	8,386	2,245	2,245
<b>Saskatchewan</b>				
Alida	Leasehold	160	80	80
Battrum	Leasehold	1,440	228	228
Bench	Leasehold	160	160	160
Big Manito	Leasehold	1,840	460	460
Bromhead	Leasehold	160	24	24
Carnduff	Leasehold	800	300	300
Eureka	Leasehold	520	520	520
Gardenhead	Leasehold	480	240	240
Gardenhead	Drilling Reservation	2,720	1,360	340
Illerbrun	Leasehold	320	106	106
Pennant	Drilling Reservation	2,320	1,160	580
Plato	Leasehold	4,400	904	904
Success	Leasehold	1,680	278	278
Steelman	Leasehold	1,231	462	462
Queensdale	Leasehold	1,200	450	450
Whitebear	Leasehold	404	50	50
Verlo	Leasehold	160	40	40

<u>General Location</u>	<u>Type of Ownership</u>	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Net Leasable Acres</u>
<b>British Columbia</b>				
Stoddard (North Pine)	Leasehold	640	112	112
<b>Yukon</b>				
Old Crow	Net Profits (2)	138,642	25,995	12,997
<b>Alaska</b>				
Bristol Bay	Lease Offers (3)	104,960	26,240	26,240
Cape Lisburne	Lease Offers (3)	5,022	753	753
Fairbanks North	Lease Offers (3)	58,880	8,832	8,832
Norton Sound	Lease Offers (3)	112,640	16,896	16,896
<b>Montana</b>				
Cedar Creek	Leasehold	400	200	200
Christina	Leasehold	14,689	14,669	14,669
East Antelope	Leasehold	2,720	1,300	1,300
East Pine	Leasehold	7,680	3,255	3,255
Fort Benton	Leasehold	50,400	44,100	44,100
Gildford	Leasehold	97,139	46,326	46,326
Hamilton Coulee (Sweet Grass)	Leasehold	480	480	480
Hay Stack Butte	Leasehold	3,560	3,560	3,560
North Kevin	Leasehold	1,256	314	314
Oxbow	Leasehold	3,798	914	914
Smoke Creek	Leasehold	6,395	3,197	3,197
South Goose Lake	Leasehold	1,562	1,562	1,562
Sumatra	Leasehold	2,240	630	630
<b>North Dakota</b>				
Bear Den	Leasehold	40	20	20
North Buffalo	Leasehold	3,120	1,560	1,560
Snake Butte	Leasehold	1,599	346	346
Towner	Leasehold	130,398	65,199	65,199
		<u>9,640,005</u>	<u>2,687,801</u>	<u>1,489,730</u>

Note 1. "Gross Acres" represents the total of the acreage interests of Houston and others in each type of ownership interest prior to conversion of permit and reservation acreage. "Net Acres" represents the interests of Houston in the gross acreage prior to conversion of permit and reservation acreage to net leasable acres. "Net Leasable Acres" represents the interest of Houston following conversion of permit and reservation acreage to lease.

Note 2. "Net Profits Interest" is a right to share in the monies remaining after deducting all costs of acquisition and exploratory and operating charges from gross proceeds.

Note 3. "Lease Offers" are applications for leases which have been filed with the Bureau of Land Management, Department of the Interior, Fairbanks, Alaska.

Note 4. Under the terms of the Concession Agreement with the Ruler of Abu Dhabi 25% of the Concession area must be relinquished within three years from the effective date of the Concession Agreement, June 7, 1970. An additional 25% must be relinquished within five years from the effective date and an additional 25% within eight years from the effective date.

# **Overriding Royalty Interests (Note 1)**

<u>General Location</u>	<u>Type of Ownership</u>	<u>Gross Acres</u>	<u>Houston's Interest</u>
Arctic Islands	Permits	8,703,315	0.25%
Alaska North Slope	Leasehold	50,896	0.3125%
Yukon (Old Crow River)	Permits	47,425	0.50%
Northwest Territories (Trainor Lake)	Permits	189,153	0.50%
Alberta (Ponoka)	Leasehold	640	2.50%
Alberta (Vermilion)	Leasehold	19,520	0.25%
Saskatchewan (Plato)	Leasehold	320	ss (Note 2)
Saskatchewan (Success)	Leasehold	1,600	2.00%
Saskatchewan (Unity)	Permits	86,720	ss (Note 3)
		<u>9,099,589</u>	

Note 1. "Overriding Royalty Interest" is a contractual right to receive a portion of the production in kind or cash equivalent.

Note 2. Houston has a 28.5% interest in a sliding scale royalty of 1/200th (5% to 15%) on oil and 10% on gas.

Note 3. Oil Royalty — 1.0%.

Gas Royalty — one third of sliding scale royalty of 2.5% to 7.5%.

## Status of Alaskan Lease Offers

There are no pending legal proceedings material to Houston's Alaska properties. However, lands subject to the offers are included in claims contained in petitions filed at various times on behalf of certain Natives of Alaska, which claims have resulted in suspension of action on the applications by the Secretary of the Interior pending final disposition of the Native claims by Congress and revocation of Public Land Order No. 4582 promulgated in aid of the Natives' land claim settlement. In addition, suits have been filed by other native groups based on the assertion of similar rights in other lands in Alaska, the outcome of which may establish precedent affecting these lands. Legislation pending in Congress intended as final settlement of the native claims may substantially affect the disposition of these lease offers. The Secretary of the Interior has suspended action on the offers pending final disposition of the native claims by Congress. Houston has been advised that such Native claims have no basis in present law and that the Natives have no right to compensation in law for lands actually occupied, unless such right is established by act of Congress.

During this period when action has been suspended on the lease offers and until leases are issued, the State of Alaska, pursuant to the Alaska Statehood Act, could become the owner in fee simple of certain or all of the lands which are the subject matter of the lease offers. The State of Alaska has made application to select the majority of the land subject to Houston's offers in the Bristol Bay area. Processing of the selection application has been suspended pending final disposition of the Native claims by Congress. In the event the lands are granted to the State of Alaska, the priority of the lease offers would continue and be recognized by the State of Alaska, under present laws, except with respect to any lands which are, within 90 days after the selection of the lands by the State of Alaska and final approval by the Secretary of the Interior, classified by the State to be competitive lands. Competitive lands are usually those lands which are in the general area of a discovery of oil or gas in commercial quantities and which the Commissioner of Natural Resources of the State of Alaska reasonably believes to be capable of production of oil or gas, and may include other lands when the Commissioner determines such classification to be in the best interests of Alaska. Houston will not participate in the drilling of any wells in the State of Alaska unless it has received leases or an interest therein in accordance with the lease offers. Any lands selected by the State of Alaska pursuant to the Alaska Statehood Act which are subject to lease must be taken by the State subject to lease.

## Operations in Turkey

Houston owns 30.5% of the issued capital of Tur-Kan Petrol Ltd. ("Tur-Kan") which was incorporated under the laws of Alberta on June 3, 1969 for the purpose of engaging in oil and natural gas exploration and development in Turkey. An additional 30.5% of the issued capital of Tur-Kan is owned by Pan Ocean Oil (Canada) Ltd. a wholly owned subsidiary of Pan Ocean Oil Corporation, which is controlled by substantial shareholders of Houston.

Tur-Kan has been granted 3 exploration licences covering approximately 370,650 gross acres in Turkey. Further applications for additional lands have been submitted to the Government of Turkey and as at the date hereof are pending a final decision. In addition to its 30.5% equity participation in the capital of Tur-Kan, Houston plans to assist Tur-Kan by contributing geological and land services and by interesting other companies in participation in exploratory drilling.

## Drilling and Exploration

Houston has participated in the drilling of wells in Alberta, Saskatchewan, Manitoba, North Dakota, Kansas, Oklahoma and Montana during the years 1964 through 1970. The number of such wells drilled during this period is as follows:

For the 12 Months Ended September 30	Total Wells	Producing Oil Wells	Shut-in Gas Wells	Dry Holes
1964	12	5		7
1965	19	7		12
1966	3	1		2
1967	6	1		5
1968	7	1	1	5
1969	20	12	1	7
1970	40	7	8	25

The amounts expended by Houston on drilling and exploration activity are tabulated below:

For the 12 months ended September 30	
1964	\$ 67,831
1965	116,290
1966	58,694
1967	65,680
1968	70,474
1969	236,394
1970	1,238,367

The amounts expended by Houston for acquisition of leasehold and other interests are tabulated below:

For the 12 months ended September 30	
1964	\$ 11,462
1965	49,225
1966	31,027
1967	11,420
1968	15,116
1969	738,843
1970	1,072,065

## **Mineral Prospecting Permits**

### **Northwest Territories**

Houston has a 50% interest in two Northwest Territories Mineral Prospecting Permits and has conducted exploration work in the form of an airborne gamma ray spectrometer survey which was followed by a field investigation. Results of this program have not been encouraging but the required minimum expenditure of \$19,187.50 has been made and Houston plans to retain its present interest in the 23,040 Permit acres until the next commitment date, March 31, 1971.

Houston has an overriding royalty interest of 1% in Mineral Prospecting Permits on 88,664 gross acres in the Baker Lake area.

### **Alaska**

Houston has acquired a 100% interest in seven State of Alaska offshore Mineral Prospecting Permits covering a total of 13,049 acres in the Endicott Arm and Shelikof Strait areas. These permits were acquired from the State of Alaska for the minimum filing fees. Houston has no immediate plans to conduct exploratory work on these permits, as future activity will be governed by the results obtained by operators conducting work on the adjoining permits.

## **AUDITORS' REPORT**

To the Directors  
Houston Oils Limited

We have examined the consolidated balance sheet of Houston Oils Limited and its subsidiary company as at September 30, 1970 and the consolidated statements of income, retained earnings (deficit), and source and application of funds for the five years then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1970 and the results of their operations and the source and application of their funds for the five years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

**COLLINS LOVE EDDIS VALIQUETTE & BARROW**  
Chartered Accountants

December 3, 1970  
Calgary, Alberta

**HOUSTON OILS LIMITED**  
and Subsidiary Company

**CONSOLIDATED BALANCE SHEET**

September 30, 1970

**ASSETS**

**Current**

Cash .....	\$ 19,205
Accounts receivable .....	420,037
Prepaid expenses .....	7,193
	<hr/> 446,435
Note receivable, shareholder (Note 3) .....	25,000
Drilling and exploration deposits .....	35,500
Marketable securities, at cost (market value \$32,620) .....	23,662
Investment in and advances to affiliated company (Note 4) .....	145,925
	<hr/>
Property and equipment, at cost	
Oil and gas properties, fully or partially developed, less accumulated depletion of \$76,394 .....	548,918
Oil and gas properties, undeveloped .....	1,388,997
Mineral properties .....	1,130
Production and other equipment, less accumulated depreciation of \$64,354 .....	105,199
	<hr/> 2,044,244
Other assets .....	3,787
	<hr/> <u>\$ 2,724,553</u>

**LIABILITIES**

**Current**

Accounts payable and accrued charges .....	\$ 322,525
--	------------

**SHAREHOLDERS' EQUITY**

**Capital stock (Note 5)**

Authorized	
5,000,000 shares without nominal or par value	
Issued	
1,995,000 shares .....	2,704,941
Deficit .....	(302,913)
	<hr/> 2,402,028
Commitments and contingencies (Note 7)	
	<hr/> <u>\$ 2,724,553</u>

On behalf of the Board

A. E. Whitehead, Director

J. A. Millard, Director

The accompanying notes are an integral part of this financial statement

**HOUSTON OILS LIMITED**  
and Subsidiary Company

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)**

	Years ended September 30				
	1970	1969	1968	1967	1966
Retained earnings, beginning of year .....	\$ 119,873	\$ 66,637	\$ 61,813	\$ 99,464	\$ 59,281
Net income (loss) for the year .....	(357,788)	53,236	4,824	(29,651)	50,183
	<u>(237,915)</u>	<u>119,873</u>	<u>66,637</u>	<u>69,813</u>	<u>109,464</u>
Less: Share and warrant issue expenses ..	64,998	—	—	—	—
Dividends declared and paid .....	—	—	—	8,000	10,000
Retained earnings (deficit), end of year ..	<u>\$ (302,913)</u>	<u>\$ 119,873</u>	<u>\$ 66,637</u>	<u>\$ 61,813</u>	<u>\$ 99,464</u>

The accompanying notes are an integral part of this financial statement

**HOUSTON OILS LIMITED**  
and Subsidiary Company

**CONSOLIDATED STATEMENT OF INCOME**

	Years ended September 30				
	1970	1969	1968	1967	1966
<b>Revenues</b>					
Exploratory ventures and lease sales	\$ 604,369	\$ 152,344	\$ 81,109	\$ 77,049	\$ 122,566
Oil production (net)	86,390	56,062	26,697	32,794	31,097
Profit on sale of producing properties	—	—	39,034	—	—
Other	93,978	60,759	18,910	12,907	19,900
	<u>784,737</u>	<u>269,165</u>	<u>165,750</u>	<u>122,750</u>	<u>173,563</u>
<b>Expenses</b>					
Cost of exploratory ventures and lease sales	397,236	58,967	67,065	48,017	39,117
Unproductive development and property abandoned	486,571	38,037	7,480	15,518	6,373
Lease rentals	8,307	6,401	2,174	3,431	5,869
General and administrative expenses (net)	144,713	85,537	57,626	57,317	52,223
Bad debts	46,421	—	—	—	—
Depletion	35,371	5,331	9,448	12,414	8,457
Depreciation	16,256	18,647	11,991	12,186	7,257
Interest	1,232	3,009	4,824	3,518	1,850
Foreign exchange (Note 2)	6,418	—	—	—	—
	<u>1,142,525</u>	<u>215,929</u>	<u>160,608</u>	<u>152,401</u>	<u>121,146</u>
Net income (loss) before income taxes	(357,788)	53,236	5,142	(29,651)	52,417
Income taxes (Note 6)	—	—	318	—	2,234
Net income (loss) for the year	<u>\$ (357,788)</u>	<u>\$ 53,236</u>	<u>\$ 4,824</u>	<u>\$ (29,651)</u>	<u>\$ 50,183</u>
Net income (loss) per share, based on the weighted average of shares outstanding during the year and adjusted for stock split	<u>(18.9c)</u>	<u>6.5c</u>	<u>.8c</u>	<u>(4.9c)</u>	<u>8.4c</u>
Based on imputed earnings of 6% on proceeds, the exercise of the share purchase warrants would not have a dilutive effect on earnings per share					

The accompanying notes are an integral part of this financial statement

**HOUSTON OILS LIMITED**  
and Subsidiary Company

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

	Years ended September 30				
	1970	1969	1968	1967	1966
<b>Source of funds</b>					
Current operations					
Net income (loss) for the year .....	\$ (357,788)	\$ 53,236	\$ 4,824	\$ (29,651)	\$ 50,183
Depreciation .....	16,256	18,647	11,991	12,186	7,257
Depletion .....	35,371	5,331	9,448	12,414	8,457
Other .....	—	1,326	—	—	50
Funds available from operations .....	(306,161)	78,540	26,263	(5,051)	65,947
Long term debt .....	—	50,390	—	—	—
Capital stock issued .....	1,850,000	854,926	—	—	—
Other .....	—	5,854	—	—	—
	<u>1,543,839</u>	<u>989,710</u>	<u>26,263</u>	<u>(5,051)</u>	<u>65,947</u>
<b>Application of funds</b>					
Acquisition (disposal) of properties (net) .....	1,028,044	865,069	(10,545)	10,134	29,263
Acquisition of fixed assets (net) .....	72,554	39,233	1,651	17,373	10,641
Share and warrant issue expenses .....	64,998	—	—	—	—
Investment in and advances to affiliated company .....	132,425	13,500	—	—	—
Note receivable .....	—	25,000	—	—	—
Drilling deposits advanced (refunded) .....	7,000	13,500	9,350	5,650	(4,113)
Repayment of advances from shareholders .....	—	—	4,621	2,319	5,060
Dividends paid .....	—	—	—	8,000	10,000
Repayment of long term debt .....	50,390	—	—	—	—
Purchase of marketable securities .....	23,662	—	—	—	—
Other .....	1,750	4,190	350	—	(100)
	<u>1,380,823</u>	<u>960,492</u>	<u>5,427</u>	<u>43,476</u>	<u>50,751</u>
Increase (decrease) in working capital ..	<u>\$ 163,016</u>	<u>\$ 29,218</u>	<u>\$ 20,836</u>	<u>\$ (48,527)</u>	<u>\$ 15,196</u>

The accompanying notes are an integral part of this financial statement

**HOUSTON OILS LIMITED**  
**and Subsidiary Company**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 1970

**Note 1: Accounting Practices**

The companies follow the practice of capitalizing all lease acquisition costs and exploration costs. If the lease is subsequently surrendered the accumulated costs are charged to income at the time of surrender. The costs of drilling unproductive wells are charged to income when the prospect area is abandoned. Lease acquisition costs and exploration costs of each producing area are amortized on the unit of production method based on estimated recoverable reserves of oil and gas. Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize the costs over the estimated useful lives of the assets.

**Note 2: Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Bridger Petroleum Corporation, a United States corporation.

The accounts of the subsidiary have been converted to Canadian dollars on the following basis:

- Current assets and current liabilities at the rate of exchange in effect at September 30, 1970.
- Other assets and liabilities at the rate of exchange in effect at the date of the transaction.
- Income and expenses at the average rate of exchange for the year.
- The net exchange difference has been included in the statement of income.

**Note 3: Note Receivable, Shareholder**

In 1969, the Company loaned \$25,000 to Mr. D. R. Long, an employee, who is an officer of the company, for the purchase of fully paid shares in the capital of the Company. The loan is evidenced by a promissory note payable on or before August 1, 1974 and is secured by the certificates representing the 10,000 shares purchased, which certificates are deposited with The Canada Trust Company, as Trustee.

**Note 4: Investment in and Advances to Affiliated Company**

The Company has advanced \$142,671 by way of loan to an affiliated company, Tur-Kan Petrol Ltd. These funds, together with an equal amount received from another affiliated company, have been used by Tur-Kan Petrol Ltd. for the following purposes:

- (a) to acquire and evaluate certain oil and gas exploration licenses in Turkey (which evaluations were still in progress as at September 30, 1970), and
- (b) to provide interim financing for the drilling of a well on the lands covered by the Turkish licenses, the total costs of which are recoverable from other parties.

The Company holds 30.5% of the outstanding share capital of Tur-Kan Petrol Ltd. at a cost of \$3,254.

**Note 5: Capital Stock**

- (a) On January 27, 1969, the authorized capital of the Company was changed from 20,000 shares with a par value of \$1 each to 5,000,000 shares without nominal or par value which may be issued for an aggregate consideration not exceeding \$5,000,000. The 15 shares with a par value of \$1 each then outstanding were converted into 600,000 shares without nominal or par value.
- (b) Between March 15, 1969, and June 30, 1969, 630,000 shares were issued for a cash consideration of \$553,926.
- (c) Between April 15, 1969, and June 30, 1969, 165,000 shares with a stated value of \$301,000 were issued for properties.
- (d) Under the provisions of an underwriting agreement dated December 1, 1969, the Company sold 600,000 shares and 300,000 share purchase warrants for an aggregate cash consideration of \$1,850,000.

Each share purchase warrant entitles the holder to purchase one share of the Company at a price of

\$3.50 at any time up to December 15, 1972, after which date they will be void. None of the share purchase warrants were exercised to September 30, 1970. 300,000 shares of the capital stock of the Company are reserved for the exercise of these warrants.

- (e) A further 50,000 shares of the capital stock of the Company are reserved for issuance under a stock option plan for key employees.

## **Note 6: Income Taxes**

### **Intangible Exploration and Development Expenditures**

Under the provisions of the Canadian and United States Income Tax Acts the companies are entitled to claim intangible exploration and development expenses without regard to the amounts charged in the accounts. As at September 30, 1970 the Company has incurred approximately \$750,000 and the subsidiary has incurred approximately \$1,325,000 of intangible exploration and development expenses which have not been claimed for tax purposes and which are available for carry-forward against taxable income of future years.

The Company is of the opinion that the "tax allocation" basis of recording income taxes relating to timing differences in claiming intangible exploration and development expenses as advocated by some accounting authorities is not appropriate for companies in the oil and gas industry. This view conforms with general practice in the oil and gas industry.

Had the Company used the "tax allocation" basis with respect to intangible exploration and development expenses, the provision for deferred income taxes and the resulting net income would have been as follows:

<b>Year ended September 30,</b>	<b>Deferred Income Taxes</b>	<b>Resulting Net Income (Loss)</b>
1966 _____	\$ 19,652	\$ 30,531
1967 _____	(14,385)	(15,266)
1968 _____	3,249	1,575
1969 _____	28,436	24,800
1970 _____	(104,412)	(253,376)
Cumulative total to September 30, 1970 _____	(32,658)	—

It is the policy of the companies to provide for deferred income taxes with respect to timing differences relating to tangible assets. However, as at September 30, 1970, there were no material differences of this nature and thus no deferred income taxes have been provided in this respect.

### **Loss Carry-Forwards**

In addition to the amounts mentioned in the preceding paragraphs, the Company has approximately \$75,000 of loss carry-forwards arising from Canadian operations which may be carried forward and applied against taxable income of future years within certain prescribed time limits.

## **Note 7: Commitments and Contingencies**

The Company holds a number of federal Petroleum and Natural Gas Exploratory Permits covering acreage in the Arctic and East Coast areas. The terms of these permits require the Company to expend a net total of \$155,986 in exploratory work before December 1972. As security for this work commitment the Company has issued non-interest bearing promissory notes to the Government of Canada.

The Company is a guarantor of a letter of credit in the amount of \$23,835 issued to the Petroleum Administration of the Turkish Government covering work performance and damage indemnifications.

The subsidiary is obligated to pay the amount of \$67,000 in connection with certain lease applications in Alaska, if and when, the relevant leases are issued.

## **Note 8: Remuneration of Directors and Senior Officers**

The aggregate direct remuneration paid by the Company and its subsidiary to directors and senior officers during the five years ended September 30, 1970, was as follows:

1970 - \$61,880  
 1969 - \$33,460  
 1968 - \$27,675  
 1967 - \$28,900  
 1966 - \$24,240

## GENERAL INFORMATION

### Persons Making the Solicitation

This solicitation is made on behalf of the Management of Houston. The solicitation is being made by mail and may also be made personally by telephone and telegraph by directors, officers and regular employees of Houston who will not be additionally compensated therefor. The total cost of soliciting proxies will be borne by Houston. Additional solicitation may be under special arrangements with persons not regularly employed by Houston to solicit brokers and other persons holding in their names or those of their nominees shares beneficially owned by others. In such case it is estimated that the additional cost to Houston would not exceed \$2,500.

### Appointment and Revocation of Proxies

A form of proxy is attached to the Notice of a Special General Meeting which accompanies this information circular. The persons named in such form of proxy are directors of Houston. Any person or company giving a proxy will have the power to revoke such proxy at any time prior to the meeting. Attendance at the meeting in person by any shareholder will be treated as revocation of any proxy previously given by him.

All properly executed proxies of shareholders received by the Canada Trust Company, Registrar and Transfer Agent for Houston, prior to the time of the meeting on January 25, 1971 will be voted at the meeting and, if a choice is specified with respect to any matters to be acted upon, will be voted in accordance with the instructions contained therein.

### Voting Shares and Principal Holders Thereof

There are presently issued and outstanding 1,995,000 common shares of Houston. Houston has no preferred shares. The registered holders of shares of Houston, at the time of the meeting, are entitled to attend and vote thereat on the basis of one vote for each such share held. The register of transfers will not be closed.

The following parties hold in excess of 10% of the issued and outstanding shares of Houston:

<u>Name and Address</u>	<u>Shares Beneficially Owned</u>	<u>Percentage</u>
Dan W. Lufkin New York, New York	327,250	16.4
Louis Marx, Jr. New York, New York	291,250	14.6
Albert E. Whitehead Calgary, Alberta	340,500	17.1

The affirmative vote of the holders of at least three-fourths of the outstanding Common Shares represented in person or by proxy and voted at the Meeting is required to adopt the Special Resolution. The holders of ten (10%) per cent of such Common Shares must be so represented to satisfy the quorum requirements for the Meeting.

If the Special Resolution is not passed by the required affirmative vote the transactions contemplated by the Agreement of Amalgamation will not be consummated.

### Signature of Proxy

The proxy shall be executed by the shareholder or his attorney authorized in writing, or if a shareholder is a corporation, the proxy should be signed in its corporate name under its corporate seal by an authorized officer whose title should be indicated. A proxy signed by a person acting as attorney or in some other representative capacity should reflect such person's capacity following his signature and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such has been previously filed with Houston).

A shareholder submitting a proxy may appoint a person (who need not be a shareholder) to represent him at the Meeting other than the persons designated in the enclosed proxy by striking out the names of the persons so designated and inserting the name of the appointed representative in the blank space provided.

### **Action to be Taken Under the Proxy**

Unless the shareholder specifies otherwise, proxies in the form enclosed which are properly executed and returned will be voted in favour of the Special Resolution at the Meeting and any adjournment thereof. In each case where the giver of a proxy has appropriately specified that the proxy is to be voted otherwise, it will be voted in accordance with the specifications so made. The persons named in the enclosed proxy may, if in their judgment it is deemed to be advisable, vote such proxy to adjourn the Meeting from time to time. It is the intention that, as to any matters or business other than the matters described herein which may be properly brought before the Meeting, a vote may be cast pursuant to the enclosed proxy in accordance with the judgment of the person or persons voting the same. The Management does not know of any such other matters or business.

### **Sources of Information**

All information contained in this Proxy Statement and Information Circular relating to Houston, Ensign, their respective subsidiaries and their respective officers and directors is based upon information received from the corporation or individuals concerned and is believed to be reliable, such information having been so furnished for the purpose of inclusion in this Proxy Statement and Information Circular.

Except as otherwise herein specified, the effective date of the information contained herein is December 28, 1970.

Dated at Calgary, Alberta, December 30, 1970.

BY ORDER OF THE BOARD OF DIRECTORS

J. A. MILLARD  
Secretary



**EXHIBIT 1.**

THIS INDENTURE made this 7 day of December, A.D. 1970.

BETWEEN:

HOUSTON OILS LIMITED, a body corporate,  
having its head office at the City of  
Calgary, in the Province of Alberta,  
(hereinafter called "Houston"),

OF THE FIRST PART

— and —

ENSIGN OILS LIMITED, a body corporate,  
having its head office at the City of  
Calgary, in the Province of Alberta,  
(hereinafter called "Ensign"),

OF THE SECOND PART

WHEREAS the parties hereto (herein collectively called the "Amalgamating Companies") have agreed to enter into these presents (herein called the "Agreement of Amalgamation") providing for the amalgamation of the Amalgamating Companies into one company pursuant to the provisions of Section 140a of The Companies Act of the Province of Alberta (R.S.A. 1955 Chap. 53 and amendments thereto) (herein called the "Companies Act") to be known by the name of HOUSTON OILS LIMITED (herein called the "Amalgamated Company"); and

WHEREAS Houston is presently and will on the effective date hereof be authorized to issue 5,000,000 common shares without nominal or par value for a maximum aggregate consideration of \$5,000,000 of which 1,995,000 have been issued as fully paid and non-assessable for a total consideration of \$2,404,041; and

WHEREAS Houston has also issued 300,000 share purchase warrants entitling the holders thereof to purchase one share of Houston for each share purchase warrant held, exercisable at any time up to December 15, 1972; and

WHEREAS Ensign is presently and will on the effective date hereof be authorized to issue 5,000,000 common shares without nominal or par value for a maximum aggregate consideration of \$15,000,000 of which 1,596,000 have been issued as fully paid and non-assessable for a total consideration of \$1,974,850; and

WHEREAS there are annexed hereto as Schedule "A" financial statements in columnar form for each of the Amalgamating Companies comprised of Balance Sheets as of September 30, 1970 and pro forma combined Balance Sheet of the Amalgamated Company as of that date giving effect to the amalgamation hereby contemplated and certain other matters mentioned in the note thereto; and

WHEREAS by its execution and delivery hereof, each party hereto represents and warrants to the other and to their respective shareholders that its said Balance Sheet incorporated in Schedule "A" hereto correctly and fairly discloses its true financial condition on that date as reflected in its books of account and further represents that since that date there has been no material or significant alteration in its financial condition nor has any event occurred down to the date hereof which would, or could if reflected in the books of any such corporation, significantly or materially alter its assets or liabilities so as to affect the relative net equity value of such corporation as against the equity value of the other Amalgamating Company.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the mutual agreements, covenants and conditions herein contained, the parties hereto by these presents do, subject to adoption and approval of this Amalgamation Agreement as provided by law, agree to amalgamate into

and be continued as one company under the name of HOUSTON OILS LIMITED, having the objects set forth and described in Clause 4 hereof and having as its Articles of Association the form of Articles of Association annexed hereto as Schedule "B", which Amalgamated Company shall from the date of issuance of the Certificate of Amalgamation, pursuant to Section 140a of The Companies Act be seized of and shall hold and possess and enjoy all of the property, rights and interests, and shall be subject to all the debts, liabilities and obligations of each of the Amalgamating Companies.

AND THIS AGREEMENT FURTHER WITNESSETH that the Amalgamating Companies have agreed upon and by these presents do agree upon and prescribe the following as the terms and conditions each of the parties hereto does hereby covenant, promise and agree to observe, keep and perform, namely:

1. The name of the Amalgamated Company shall be HOUSTON OILS LIMITED.
2. The authorized capital of the Amalgamated Company on the effective date hereof shall be 20,000,000 common shares without nominal or par value, which may be issued for a maximum aggregate consideration of \$20,000,000.
3. The shares of the Amalgamated Company shall carry and be subject to the rights and conditions set forth and described in the form of Articles of Association annexed as Schedule "B" hereto.
4. The objects for which the Company is to be established are as follows:
  - (a) To engage in the business of prospecting, exploring, testing, digging, drilling, boring, mining, quarrying, exploiting, operating and extracting oil, gas and other hydrocarbons, minerals, ores and all other compounds, and in connection therewith to purchase, acquire, hold, own, lease, sublease, mortgage, sell, assign, transfer, convey or otherwise dispose of any of the aforesaid substances either separately or together with the land in, on or under which they are located; to purchase, acquire, hold, own, sell, or otherwise dispose of oil, gas and other hydrocarbon royalties and rights and all other royalties, rights and privileges; and to purchase, acquire, hold, own, drill, dig, maintain, operate and dispose of oil and gas wells, and other wells, mines and quarries for the production, removal, or extraction of other hydrocarbons, coal, minerals, ores and any other compounds.
  - (b) To engage in the business of purchasing or otherwise acquiring, refining, producing, processing blending, manufacturing, warehousing, and storing in bulk, transporting, distributing, exporting and importing and wholesale or retail marketing and supplying of crude petroleum, refined petroleum products, natural and hydrocarbon gases, coals, minerals, ores, carbon blacks, naphthas, fuel oils, lubricants, asphalts, natural and synthetic rubber, latex, industrial resins, plastics, polymers, copolymers, petrochemicals and the derivatives, products, and by-products thereof.
  - (c) To engage in the business of constructing, purchasing, acquiring, owning, leasing, subleasing and operating facilities commonly referred to as gasoline service stations for the retail distribution and sale of gasoline, motor oils and other petroleum products, garages and automotive repair shops, and purchasing or otherwise acquiring, selling or otherwise disposing of goods, wares, merchandise, commodities, materials, and services customarily sold, handled, distributed, or supplied by gasoline service stations, garages and automotive repair shops.
  - (d) To purchase or otherwise acquire land and real estate of all kinds and develop and operate the same and to manufacture, produce, transport, sell, market at wholesale or retail or otherwise dispose of, import, export, distribute, provide and deal in and with, whether as principal or agent, or through franchise dealers, distributors or otherwise, goods, wares, merchandise, materials, equipment and services of every kind and description.
  - (e) In connection with all the foregoing and with any other present or future businesses of the Company to purchase or otherwise acquire, lease, erect, construct, lay, install, develop, own, operate, maintain, sell, transfer, convey, mortgage, create liens upon or otherwise dispose of drilling and mining rigs, field equipment, derricks, pumps, pipelines, conduits, pumping stations, meters, refineries, smelters, buildings, manufacturing and processing plants, all other buildings, machines, engines, facilities, installations, vehicles, vessels, apparatus, equipment and all rights and privileges therein useful in the business of the Company.

- (f) To operate, manage, supervise or control all or part of the business and property of any corporation, association, firm or entity, or to take part therein; to make, enter into, perform and carry out contracts and agreements of every kind and description, including but not limited to joint ventures and reciprocal concessions, with any person, corporation, firm, association, partnership, syndicate, trustee, or government or subdivision thereof.
- (g) To acquire by purchase, exchange or otherwise all, or any part of, or any interest in, the properties, assets, business and good will of any one or more persons, firms, associations or corporations; to pay for the same in cash or property or stock or obligations of the Company or otherwise; to hold, own, operate, reorganize, liquidate, sell or otherwise dispose of the whole or any part thereof subject to the laws of the Province of Alberta and Canada; and in connection therewith, to assume or guarantee performance of any liabilities, obligations or contracts of such persons, firms, associations or corporations, and to conduct the whole or any part of any business thus acquired.
- (h) To subscribe for, purchase or otherwise acquire, and to hold, mortgage, pledge, sell, assign, transfer, exchange or otherwise dispose of securities, to pay for the same in cash, property or securities, or any combination thereof; and to exercise, as owner or holder of any securities, any and all rights, powers and privileges in respect thereof. The term "securities" as used herein includes without limitation of the generality of the foregoing, shares of stock, bonds, debentures, notes, mortgages or other evidences of indebtedness and certificates, receipts or other instruments representing rights to receive, purchase or subscribe for the same, or representing any other rights or interest therein or in any property or assets created or issued by any person, firm, association or corporation or government or subdivision thereof.
- (i) To borrow or raise money for any of the objects or purposes of the Company, without limit as to amount, including, without in any way limiting the generality of the foregoing, the acquisition of property by conditional sale agreement or other title retention or security arrangement involving deferral of the purchase price; to issue, sell, exchange or otherwise dispose of its own securities in such amounts, on such terms and conditions, for such purposes and for such consideration, now or thereafter permitted by the laws of the Province of Alberta and Canada and by the provisions of this Clause, as the Board of Directors of the Company may determine; and to secure such securities, to the extent now or hereafter permitted by such laws and as the Board of Directors may determine, by mortgage upon, or the pledge of, or the conveyance or assignment in trust of, the whole or any part of the properties, assets, contract rights, business and good will of the Company then owned or thereafter acquired.
- (j) To the extent now or hereafter permitted by the laws of the Province of Alberta and Canada to advance or lend money to (with or without interest or security) and to aid by endorsement, guarantee of payment or performance, or otherwise, any corporation, association, firm, entity, government or individual any of the securities of which have been acquired or contracted for by the Company or any of its subsidiaries, or in which or in whom or in the business of which or of whom the Company or any of its subsidiaries shall have any interest, direct or indirect, including but not limited to the power to guarantee the performance of any undertaking or obligation for the payment of dividends on stocks or shares, or the performance of sinking fund or other obligations of any securities.

5. The names, occupations and places of residence of the first directors of the Amalgamated Company are as follows:

NAME	OCCUPATION	RESIDENCE
C. Franklin Agar	Executive	Calgary, Alberta
Roger L. Ball	Accountant	Calgary, Alberta
William A. Clarke	Investment Dealer	Oakville, Ontario
John A. Downing	Executive	Calgary, Alberta
Louis Marx, Sr.	Corporation President	Scarsdale, New York
James A. Millard	Barrister & Solicitor	Calgary, Alberta
Albert E. Whitehead	Executive	Calgary, Alberta

6. The said first directors, subject to the provisions of the Articles of Association, shall hold office until the date on which the first annual meeting of the Amalgamated Company is held in the year 1971. The subsequent directors shall be elected in accordance with the provisions of the Articles of Association of the Amalgamated Company.

7. The names and offices to be held respectively by the principal officers of the Amalgamated Company, until others are elected or appointed by the Board of Directors in their place, and their places of residence are as follows:

NAME	OFFICE HELD	RESIDENCE
Albert E. Whitehead	President	Calgary, Alberta
John A. Downing	Vice President	Calgary, Alberta
Darrell R. Long	Vice President, Exploration	Calgary, Alberta
Thomas M. M. Bender	Treasurer	Calgary, Alberta
James A. Millard	Secretary	Calgary, Alberta

8. The liability of the members of the Amalgamated Company will be limited to the amount, if any, unpaid on their shares.

9. The first auditors of the Amalgamated Company will be Collins, Love, Eddis, Valiquette and Barrow, Chartered Accountants, Calgary, Alberta, and The Canada Trust Company at its principal office in the Cities of Calgary, Alberta, Toronto, Ontario, Montreal, Quebec and Vancouver, British Columbia will be the Registrar and Transfer Agent for all shares in the capital stock of the Amalgamated Company.

10. Upon the amalgamation becoming effective, the authorized and issued capital of the Amalgamating Companies shall be and be deemed to have been converted into the authorized and issued capital of the Amalgamated Company in the following manner, namely:

- (a) by the conversion of all of the authorized but unissued capital of the Amalgamating Companies into authorized but unissued capital of the Amalgamated Company PROVIDED THAT the authorized but unissued capital of the Amalgamated Company so created shall not exceed its authorized capital as set forth in Clause 2 hereof; and
- (b) by conversion of (i) each of 1,995,000 outstanding shares of Houston into one outstanding share of the Amalgamated Company, (ii) each of 1,596,000 outstanding shares of Ensign into one and one-third outstanding shares of the Amalgamated Company in the manner set forth in this Clause, (iii) each of 50,000 shares of Ensign reserved for the exercise options previously granted by Ensign into one and one-third shares of the Amalgamated Company to the intent that if, as and when any such option is exercised, one and one-third shares of the Amalgamated Company shall be substituted for each share of Ensign covered by such option, subject to the cash adjustment in lieu of any fractional share referred to in Clause 11 hereto, and (iv) each of 50,000 shares of Houston reserved for the exercise of options previously granted by Houston into one share of the Amalgamated Company to the intent that if, as and when any such option is exercised, one share of the Amalgamated Company shall be substituted for each share of Houston covered by such option.
- (c) by conversion of each of 300,000 share purchase warrants issued by Houston into a warrant to purchase shares of the Amalgamated Company to the intent that if, as and when any such share purchase warrant is exercised, one share of the Amalgamated Company shall be substituted for each share of Houston to which the warrant holder would have been entitled.

11. Certificates for shares of the Amalgamated Company will be issued to Ensign shareholders in accordance with Clause 10 hereof upon presentation of their certificates to The Canada Trust Company, Calgary, Alberta. Cash will be paid by the Transfer Agent to Ensign shareholders in lieu of any fractional share of the Amalgamated Company resulting from conversion, such payment to be based upon the closing price of Houston shares on the Toronto Stock Exchange on the effective date hereof, it being expressly understood and agreed that such payment shall be carried out as and by way of assistance in completing the

share exchange contemplated by this Agreement and not as a consideration separately bargained for by Ensign shareholders. Share certificates and share purchase warrants of Houston presently in the hand of its shareholders and warrant holders shall be deemed to represent and cover shares and share purchase warrants of the Amalgamated Company until such time as a revision of the form of share certificate and/or purchase warrant shall be required by the Toronto Stock Exchange, the Canadian Stock Exchange or governmental authority.

12. No action or proceedings by or against any of the Amalgamating Companies shall abate or be affected by the amalgamation, but for all purposes the name of the Amalgamated Company shall be substituted in such action or proceeding, if any, in the place of that party hereto affected by such proceedings.

13. Each of the parties hereto represents, warrants to and agrees with the other (which representations, warranties and agreements shall be deemed to be made by and apply equally to its wholly-owned subsidiaries except where otherwise indicated by context) as follows:

- (a) It is a corporation duly organized, validly existing and in good standing under the laws of the Province of Alberta and is duly qualified and in good standing as a foreign corporation in each jurisdiction where, to the knowledge of its officers, the nature of the property owned or the business transacted by it makes such qualification necessary.
- (b) As of the date hereof, its authorized and outstanding share capital is as set forth in the recitals hereto and there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements of any character providing for the purchase of any of its authorized but unissued shares other than (i) 50,000 Houston shares reserved for issuance under a stock option plan for key employees of that company (ii) 300,000 share purchase warrants issued by Houston as set forth in the recitals hereto, 300,000 shares of that company having been reserved and set aside for the exercise of such share purchase warrants, and (iii) 50,000 Ensign shares reserved for an option granted pursuant to an option agreement entered into by that company on August 19, 1968, and that prior to the effective date it will not authorize any increase in the number of shares in its authorized capital stock or issue any options or rights to subscribe for or purchase shares of its capital stock.
- (c) Its consolidated financial statements as of September 30, 1970, which have been furnished by each to the other are true and correct and fairly present its financial position and its subsidiaries as of such date and the results of its operations and its subsidiaries for the period then ended.
- (d) In the negotiations leading up to the transaction contemplated by this Agreement of Amalgamation, it has not retained or otherwise utilized the services of any broker or finder.
- (e) Except for such claims, debts or liabilities as are reflected in the September 30, 1970 financial statements referred to in Clause (c) above, it has no outstanding indebtedness and is not subject to any claims or liabilities and that without the prior written consent of the other it will not incur, prior to the effective date any additional indebtedness for the money borrowed or incur any liabilities in excess of \$50,000.
- (f) It has not since September 30, 1970, issued, or declared or paid any dividend on, or declared or made any distribution on, or authorized the creation or issuance of, or effected any split up or recapitalization of, any of its stock of any class or authorized or made any change in its Memorandum of Association or agreed to take any action, other than as set forth herein.
- (g) It has filed all requisite income tax returns and all other appropriate tax returns, required to be filed by it by the laws of the Province of Alberta or laws of Canada and has paid all taxes and assessments (including interest or penalties, owed by it to the extent that such taxes and assessments have become payable and if to the extent that such taxes and assessments and the subsequent tax liabilities have accrued but have not become payable), the full amounts thereof have been reflected as liabilities on its books and has paid all taxes which would not require the filing of returns and which are required to be paid by it.

- (h) It has good and marketable title to all its real, personal and intangible property, including the real, personal and intangible property reflected in the balance sheet delivered pursuant to Clause 13 (c) above, with such changes in such real, personal and intangible property as have been made since such date, in the ordinary course of business and that none of such real, personal and intangible property is subject,
  - (i) to a contract of sale, except in the ordinary course of business, or
  - (ii) to mortgages, pledges, liens, encumbrances, security interests or charges of any kind or character except as herein disclosed and that all assets leased by it are in good operating condition and in a state of good maintenance and repair and are adequate and suitable for the purposes for which they are presently being used.
- (i) There are no claims, actions, suits or proceedings pending or threatened against or affecting it at law or in equity, by or before any federal or provincial court or other governmental or administrative commission, board, bureau, agency or instrumentality of any government and that it is not subject to any liability by reason of any violation of any order, rule or regulation of or default with respect to any tax return or any other return or report payable to or required to be filed with, any federal, provincial, municipal or other governmental agency, department, commission, bureau or board.
- (j) Between the date hereof and the effective date, it will not without the prior written consent of the other party hereto make or agree to make any increase in the rate of wages, salaries, bonuses or other remuneration of any employee or employees, or become a party to any employment contract or arrangement with any of its officers or employees, other than contracts which are terminable at will or subject to termination of not more than one month's notice, or become a party to any contract or arrangement with any officers or employees providing for bonuses or profit sharing payments, severance pay or retirement benefits.
- (k) Between the date hereof and the effective date it and its subsidiaries will not, without the prior written consent of the other party hereto, make any changes, modifications in any contracts, agreements or understandings, or incur any further obligations or surrender any rights thereunder or make any further additions to its property or further purchases of equipment, except such changes or modifications as are in the ordinary course of business or are necessary or appropriate to maintain their properties and equipment.
- (l) It is not subject to any order, judgment or decree with respect to its business or the condition of any of its assets or property, or to any provision in its Memorandum or Articles of Association, mortgage, lease, agreement, instrument, order, judgment or decree which would prevent the consummation of the transactions contemplated hereunder, or compliance by it with the terms, conditions and provisions hereof.
- (m) All its outstanding accounts receivable, as set forth in the above mentioned financial statements and in its books and records, are collectible except to the extent of the provisions for bad debts, if any, set forth in the financial statements.
- (n) It has maintained its books of account in the usual, regular and ordinary manner in accordance with generally accepted accounting principles applied on a consistent basis.
- (o) During the period from the date hereof to and including effective date, it will conduct its business solely in the usual and ordinary manner and will refrain from any transactions not in the ordinary course of business without prior written consent of the other party hereto to such transaction having been obtained.
- (p) The disclosures made on its part are complete and accurate with respect to all matters affecting the ability to operate its business and any omissions and any inaccuracies in such disclosure, whether considered alone or in the aggregate, do not adversely affect in any manner its ability to operate its business.
- (q) The execution and performance of this Agreement has been duly authorized by its Board of Directors and such execution and performance are within its corporate powers.

14. The Directors of either party hereto, as the circumstances may require, shall have power to assent to such provision, if any, as may be made for a dissenting shareholder or creditor by the Court, and also may assent or enter into any alteration or modification of this agreement which the Court, pursuant to the provisions of The Companies Act, may think fit to direct or impose and the expression "Amalgamation Agreement" as used herein shall be read and construed to mean and include this agreement as so altered or modified.

15. This Agreement may be terminated by the Board of Directors of either party hereto without cause or reason, notwithstanding the approval of this agreement by the shareholders of the other of the Amalgamating Companies at any time prior to the issue of the Certificate of Amalgamation certifying that the parties hereto have amalgamated.

16. This Agreement shall become effective upon the issuance of a Certificate of Amalgamation by the Registrar of Companies under and pursuant to the provisions of The Companies Act, and the date of the issuance of such certificate shall be the effective date hereof.

17. The obligations of each party under this Agreement are subject to fulfillment prior to or at the effective date of each of the following conditions, except any of them which may be waived by the other in writing at or prior thereto, namely:

(i) The representations and warranties each party set forth in this Agreement shall be true and accurate in all material respects as of the date when made and shall be deemed to have been made again and as at the effective date and except to the extent necessary to reflect the consummation of any transaction provided for herein or consented to or approved in writing shall then be true in all material respects.

(ii) Each party shall have duly performed and complied in all material respects with all things required by this Agreement to be performed or complied with by it at or prior to closing.

(iii) Each party shall have delivered to the other a written opinion of its solicitors, dated the effective date to the effect that:

(a) It is a corporation duly authorized, validly existing and in good standing under the laws of the Province of Alberta, with full corporate power and authority for the ownership and operating of its properties and rights and the conduct of its business as it is now conducted, and is duly qualified to do business as a foreign corporation in all jurisdictions which the character and location of its properties and rights or the nature of the business transacted by it makes such qualification necessary.

(b) It has the legal power and right to enter into and perform this Agreement and that the consummation of the transactions contemplated by this Agreement will not, to the knowledge of such solicitors, result in the breach or termination of any provision of or constitute a default under any contract, agreement, indenture, mortgage, or other instrument or agreement to which such company is a party or to which its property may be bound and such solicitors may rely upon a certificate of the President and Secretary thereof in giving their opinion relating to matters included in this subclause (b).

(c) It has taken all necessary corporate proceedings including appropriate approval by shareholders, to authorize this Agreement and the amalgamation contemplated hereby, the performance of its obligations hereunder and the execution and delivery by it of all instruments contemplated hereby and this Agreement is valid and binding upon such company in accordance with its terms.

(d) Such solicitors know of no impediment, legal or corporate, to the conclusion of amalgamation contemplated by this Agreement and covering such other matters incident to the transaction contemplated hereby.

In rendering such opinions, such solicitors may rely on opinions of other counsel satisfactory to them with respect to all matters of United States law and the laws of the Provinces of Canada except Alberta.

(iv) All legal matters in connection with this Agreement and the consummation of the amalgamation contemplated hereby and all legal opinions required by this Agreement to be submitted shall have been approved by counsel for the party receiving such opinions and there shall have been furnished to such counsel certified copies of such corporate or other records and such information as they may reasonably request for such purposes.

(v) There shall have been no material loss, damage or destruction of or to either party's properties, not adequately covered by insurance.

(vi) Each party shall have received the consent of any governmental agency, securities commission or stock exchange as required, in order to fully effect the amalgamation and maintain the listing of the shares of the Amalgamated Company on the stock exchanges where the shares of Houston are presently listed including, without limiting the generality of the foregoing, a favourable ruling from the Department of Internal Revenue of the United States of America to the effect that the exchange of shares of Houston for shares of the Amalgamated Company will constitute a tax-free exchange for Houston shareholders resident in the United States of America.

18. The addresses of the parties hereto for notices and communications shall be:

HOUSTON OILS LIMITED  
950 Three Calgary Place  
355 - 4th Avenue S.W.  
Calgary, Alberta

ENSIGN OILS LIMITED  
1050, 717 - 7th Avenue S.W.  
Calgary, Alberta

Any notice mailed or delivered under the terms hereof shall be deemed to have been received on the 2nd business day (if mailed) and on the date of delivery (if delivered).

SIGNED, SEALED AND DELIVERED

**HOUSTON OILS LIMITED**

Per: "A. E. Whitehead"  
President

Per: "J. A. Millard"  
Secretary

**ENSIGN OILS LIMITED**

Per: "John A. Downing"  
President

Per "H. F. Gain"  
Secretary

## **Schedule "A"**

(The information contained in this Schedule is found in the Financial Information pertaining to the Amalgamating Companies in the Proxy Statement and Information Circular)



Schedule "B"

THE COMPANIES ACT  
ARTICLES OF ASSOCIATION  
OF

HOUSTON OILS LIMITED

TABLE "A"

1. The regulations contained in Table "A" of the first schedule of "The Companies Act" shall not apply to the Company.

INTERPRETATION

2. In these Articles, unless the context otherwise requires, "the Statutes" shall mean "The Companies Act" and every Act incorporated therewith, or any Act or Acts substituted therefor, and in case of any such substitution the reference in these provisions to non-existing Acts shall be read as referring to the provisions substituted therefor in the new Act or Acts.

"The directors" shall mean directors of the Company for the time being.

"Dividend" includes bonus.

"The Register" shall mean the register of members to be kept as required by The Companies Act.

"Month" shall mean the calendar month.

"Paid up" shall include "credited as paid up".

"Secretary" shall include any person appointed to perform the duties of Secretary temporarily.

"Member" shall include a shareholder and vice versa.

"The Office" means the registered office of the Company for the time being.

"These presents" means and includes these Articles of Association and any modification or alteration thereof for the time being in force.

"In writing" and "written" includes printing, typewriting, lithographing and other modes of representing or reproducing words in visible form.

"The Company" means the above named Company.

Words which have a special meaning assigned to them in the statutes shall have the same meaning in these presents.

Words importing males shall include females.

Words importing individuals shall include corporations.

## BUSINESS

3. Any kind of business which by the Memorandum of Association of the Company or these presents is either expressly or by implication authorized to be undertaken by the Company may be undertaken by the directors at such time or times as they shall think fit and further may be suffered by them to be in abeyance whether such business may have been actually commenced or not so long as the directors deem it expedient not to commence or proceed with the same.

4. Subject to compliance with the requirements of the Statutes the business of the Company may commence as soon after incorporation of the Company as the directors think fit and notwithstanding that part only of the shares may have been allotted.

## SEAL

5. The Company shall have a corporate seal which shall be of such form and device as may be adopted by the Directors and the Directors may make such provisions or regulations as they see fit with respect to the affixing of the said seal and the appointment of a Director or Directors or other persons to attest by their signatures that such seal was duly affixed. In the absence of such provisions or regulations the corporate seal shall be affixed in the presence of and attested by the President or any Vice-President acting with the Secretary or any other Director of the Company.

## FACSIMILE SEAL

6. The Company may have and use in any other province, state or country an official seal which shall be a facsimile of the common seal of the Company with the addition on its face of the name of the province, state or country where it is to be used, and may by writing under its common seal authorize any person appointed for the purpose in any province, state or country outside of Alberta to affix the same to any deed or other document to which the Company is a party in that province, state or country.

## SHARES

7. Subject to the provisions of the Company's Memorandum of Association and these presents the shares shall be under the control of the Directors who may allot or otherwise dispose of same to such persons or corporations on such terms and conditions and at such times as the Directors may think fit.

No holder of any class of shares of the capital stock of the Company shall be entitled as of right to subscribe for, purchase or receive any part of any new or additional issue of shares of any class whether now or hereafter authorized or any bonds, debentures or other securities convertible into shares of any class, and all such additional shares, bonds, debentures, or other securities convertible into shares may be issued and disposed of by the Board of Directors to such person or persons and on such terms and conditions and for such consideration as the Board of Directors in their absolute discretion may deem advisable.

## CERTIFICATES FOR SHARES

8. Every member shall be entitled to a certificate in such form as may be approved by the Directors of the Company specifying the share or shares held by him. Where any shares are registered in the names of two or more persons, the Company shall not be bound to issue more than one certificate or one set of certificates in respect thereof, and such certificate or set of certificates shall be delivered to the person first named on the register.

9. The certificates for shares shall be issued under the seal of the Company and signed by the President or Vice-President and countersigned by the Secretary or some other person appointed by the Directors for that purpose. Where the Company has appointed a registrar or registrars or a transfer agent or transfer agents the said seal may be printed, lithographed, stamped or otherwise reproduced in facsimile and the said signature and countersignature may be printed, lithographed, stamped or otherwise reproduced and shall be valid notwithstanding any change in the persons holding the said offices between the time of the printing or lithographing of the said certificates and the issuance thereof.

10. If proof to the satisfaction of the Directors shall be furnished that a share certificate has been worn out, destroyed, lost or stolen such share certificate may be renewed or replaced on payment of one dollar (\$1.00) or such lesser sum as the Directors may prescribe. The Directors may as a condition of renewal or replacement of lost, destroyed or stolen certificates, require the applicant therefor to furnish a bond of indemnity in such form and amount as the Directors may prescribe or approve.

#### JOINT HOLDERS

11. If several persons are registered as joint holders of any share any one of such persons may give effectual receipts for any dividend payable in respect of such shares.

#### TRANSFER OF SHARES

12. The instrument of transfer of any shares in the Company shall be executed by the transferor and the transferor shall be deemed to remain a holder of such share until the name of the transferee is entered in the register in respect thereof.

13. Shares in the Company shall be transferred in the usual common form or in the following form or as near thereto as circumstances will admit:

*For Value Received I/We Hereby sell, assign and  
transfer unto \_\_\_\_\_*

\_\_\_\_\_  
NAME OF ASSIGNEE IN BLOCK LETTERS

\_\_\_\_\_  
ADDRESS OF ASSIGNEE IN BLOCK LETTERS

\_\_\_\_\_ shares  
*of the capital stock of* HOUSTON OILS LIMITED  
*represented by this certificate, and do hereby request the said  
corporation to enter the transfer of the said shares in the  
books of the within named corporation kept for that purpose.*

*Dated* \_\_\_\_\_

*In the presence of:*

\_\_\_\_\_  
SIGNATURE OF TRANSFEROR

\_\_\_\_\_  
WITNESS

14. The Company may decline to register any transfer of shares made by a member who is indebted to it.

15. The transfer books may (if the Directors so prescribe) be closed during the fourteen (14) days immediately preceding the ordinary general meeting in each year or for any period not exceeding fourteen (14) days prior to the date fixed for payment of any dividend.

#### RECORD DATE FOR TRANSFERS, DIVIDENDS, ETC.

16. The Board of Directors may fix in advance a date not exceeding thirty (30) days preceding the date of any meeting of shareholders or the date for payment of any dividend or the date for the allotment of rights, or the date when any change or conversion or exchange of shares shall go into effect as a record date for the determination of the shareholders entitled to notice of and to vote at any such meeting, or entitled to receive payment of any such dividends, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of shares, and in such case only such shareholders as shall be shareholders of record at the close of business on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Company after any such record date fixed as aforesaid.

#### TRANSFER AGENTS AND REGISTRARS

17. The directors may from time to time by resolution appoint, or remove, one or more Transfer Agents and Registrars for the shares of the Company and may provide for the transfer of shares in one or more places and such Transfer Agents and Registrars shall keep all necessary books of the Company for registering and transferring the shares of the Company, and the share certificates issued by the Company shall be countersigned by or on behalf of one of the said Transfer Agents and/or Registrars, if any.

#### TRANSMISSION OF SHARES

18. The executors or administrators of a deceased member, or, in the case of a member dying intestate domiciled in a jurisdiction where letters of administration are not required, the heirs of such deceased member, shall be the only persons recognized by the Company as having any title to his share.

19. Any person becoming entitled to a share in consequence of the death or insolvency of any member may be registered as a member upon such evidence being produced as may from time to time be required by the Directors.

#### SHARE WARRANTS

20. The Company with respect to fully paid up shares, may issue warrants, hereinafter called "share warrants", stating that the bearer is entitled to the shares therein specified, and may provide by coupons or otherwise for the payment of future dividends on the shares included in such warrants. The Directors may determine, and from time to time vary, the conditions upon which share warrants shall be issued, and, in particular, the conditions upon which a new share warrant or coupon will be issued in the place of one worn out, defaced, lost or destroyed, or upon which the bearer of a share warrant shall be entitled to attend and vote at general meetings, or upon

which a share warrant may be surrendered, and the name of the Bearer entered in the register in respect of the shares therein specified. The bearer of a share warrant shall be subject to any conditions for the time being in force, whether made before or after the issuance of such warrant.

#### CALLS ON SHARES

21. The Directors may from time to time make such calls upon the members in respect of all monies unpaid on their shares as they think fit, provided that fifteen (15) days' notice at least be given of such call and each member shall be liable to pay the amount of calls so made to the persons and at the time and place appointed by the Directors.

22. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed.

23. If the call payable in respect of any share be not paid before or on the day appointed for payment thereof, the holder for the time being of such share shall be liable to pay interest for the same at the rate of Ten Per Cent (10%) per annum or such lesser rate as the Directors may prescribe from the day appointed for the payment thereof to the time of the actual payment. On the trial or hearing of any action for the recovery of any money due for any call it shall be sufficient to prove that the name of the member sued is entered on the register as the holder or one of the holders of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book and that notice of such call was duly given to the member sued in pursuance of these presents; and it shall not be necessary to prove the appointment of the Directors who made such call nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

24. The Directors may if they think fit receive from any member willing to advance the same, all or any part of the monies due upon the shares held by him beyond the sum actually called for; and upon the money so paid in advance or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which sum such advance has been made, the Company may pay interest at such rate as the member paying such sum in advance and the Directors may agree upon.

#### FORFEITURE OF SHARES

25. If any member shall fail to pay any call on the day appointed for the payment thereof the Directors may at any time thereafter during such time as the call remains unpaid serve a notice on him requiring him to pay the amount of the call together with interest and any expenses that may have accrued by reason of such non-payment.

26. The notice shall name a further day on or before which such call and all interest and expenses that may have accrued by reason of such non-payment are to be paid. It shall also name the place where payment is to be made, the place so named being either the registered office of the Company or some other place at which calls of the Company are usually made payable. The notice shall also state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made will be liable to be forfeited.

27. If the requirements of any such notice as aforesaid are not complied with any share in respect of which such notice has been given may, at any time thereafter before payment of all calls, interest and expenses due in respect thereof has been made, be forfeited.

28. Any shares so forfeited shall be deemed to be the property of the Company and may be disposed of in any such manner as the Directors think fit.

29. Any members whose shares have been forfeited shall notwithstanding be liable to pay the Company all calls owing upon such shares at the time of forfeiture.

30. An affidavit that the call in respect of a share was made and notice given and that default in payment of the call was made and that the forfeiture of the shares was made by resolution of the Directors to that effect shall be sufficient evidence of the facts therein stated as against all persons entitled to such share and such affidavit shall constitute a good title to such share and the certificate of proprietorship shall be delivered to the purchaser and thereupon he shall be deemed the holder of such share discharged from all calls due prior to such purchase and he shall not be bound to see to the application of the purchase money nor shall his title to such share be affected by any irregularity in the proceedings in reference to such sale.

#### COMPANY'S LIEN

31. The Company shall have a first and paramount lien upon all the shares registered in the name of each member whether solely or jointly with others and upon the proceeds of sale thereof for his debts, liabilities and engagements solely or jointly with any other person to or with the Company whether the period for payment, fulfilment or discharge thereof shall have actually arrived or not; and such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Company's lien, if any, on such shares.

#### CONVERSION OF SHARES INTO STOCK

32. The Company may, by special resolution : (a) convert all or any of its paid up shares into stock; and (b) reconvert that stock into paid up shares of any denomination or without nominal or par value.

33. When any shares have been converted into stock, the several holders of such stock may thenceforth transfer their respective interests therein or any part of such interests in the same manner and subject to the same regulations as and subject to which any shares in the capital may be transferred or as near thereto as circumstances admit.

34. The several holders of stock shall be entitled to participate in the dividends and profits of the Company according to the amount of their respective interests in such stock; and such interest shall in proportion to the amount thereof confer on the holders thereof respectively the same privileges and advantages for the purpose of voting at meetings of the Company and for other purposes as would have been conferred by shares of equal amount in the capital of the Company, but so that none of such privileges or advantages except the participation in the dividends and profits of the Company shall be conferred by any such aliquot part of consolidated stock as would not, if existing in shares, have conferred such privileges or advantages.

## ALTERATION OF CAPITAL AND SHARES

35. (1) The Company may by ordinary resolution of the Company or by resolution of the Directors :

*a.* Increase the maximum price or consideration for which shares without nominal or par value may be issued where such maximum price or consideration has been stated in the Memorandum of Association of the Company or in these presents.

*b.* Cancel shares which at the date of passing of the resolution in that behalf have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled or in the case of the cancellation of shares without nominal or par value, by the number of shares so cancelled.

*c.* Cancel paid up shares which are surrendered to the Company by way of gift, and, if the resolution so provides, diminish the amount of its share capital by the amount of the shares, or in the case of shares without nominal or par value, by the number of the shares so cancelled.

(2) The Company may by special resolution :

*a.* Increase its share capital by the creation of new shares of such amount or of such number of new shares without nominal or par value as it thinks expedient.

*b.* Consolidate and divide all or any of its share capital having a par value into shares of larger amount than its existing shares; and/or

*c.* Convert all or any of its paid up shares into stock, and reconvert that stock into paid up shares of any denomination, or without nominal or par value.

*d.* Subdivide its shares having a par value or any of them into shares of smaller amounts than its existing shares, subject to the provisions of The Companies Act in that behalf.

*e.* Subdivide its shares without nominal or par value into a greater number of shares without nominal or par value, or consolidate and divide all its shares without nominal or par value into a smaller number of shares without nominal or par value.

## GENERAL MEETING

36. The first annual general meeting of the Company shall be held at such time, within sixteen (16) months from the date of the registration of the Memorandum of Association, and at such place as the Directors may determine. Subsequent annual meetings shall be held at least once in every calendar year and not more than sixteen (16) months after the holding of the last preceding annual general meeting at such time and place as may be determined by the Directors.

37. The annual general meetings shall be called "ordinary meetings" and all other general meetings shall be called "extraordinary general meetings". All meetings of shareholders whether ordinary or extraordinary may be held either within or without the Province of Alberta.

38. The Directors may whenever they think fit convene an extraordinary general meeting at such time and place as they may determine. The Board shall upon the requisition of the holders of not less than one-tenth of the issued voting share capital, at the time of the requisition, of the Company forthwith proceed to convene an extraordinary general meeting of the Company and at an extraordinary general meet-

ing called in pursuance of a requisition, unless such meeting shall have been called by the Board, no business other than that stated in the requisition as the objects of the Meeting shall be transacted thereat.

39. Where it is proposed to pass a Special Resolution at a general meeting such notice as is required to be given by 'The Companies Act and in all other cases at least Seven (7) days' notice specifying the day, hour and place of every shareholders' meeting and in the case of special business the general nature of such business shall be served in one of the manners hereinafter provided on the members registered in the shareholders' register at the time such notice is served or if a record date has been fixed by the Directors, on the members registered in the shareholders' register at the record date so fixed; provided always that a meeting of shareholders may be held for any purpose, at any time and at any place without notice, if all the shareholders entitled to notice of such meeting are present in person or represented thereat by proxy or if the absent shareholders shall have signified (whether before or after the meeting) their assent in writing to such meeting being held. Notice of any meeting or any irregularity in any meeting or in the notice thereof may be waived by any shareholders or the duly appointed proxies of any shareholders. It shall not be necessary to give notice of any adjourned meeting.

40. Irregularities in the notice of any meeting or in the giving thereof or the accidental omission to give notice of any meeting or the non-receipt of any notice by any shareholder or shareholders shall not invalidate any resolution passed or proceedings taken at any meeting or shall not prevent the holding of such meeting.

#### PROCEEDINGS AT GENERAL MEETING

41. All business shall be deemed special that is transacted at an extraordinary general meeting. All business that is transacted at an ordinary meeting other than receiving and considering the profit and loss account, the balance sheet and reports of the Directors and Auditors, the election of Directors and the appointment of Auditors shall also be deemed special business.

42. Two persons personally present being members or representatives of corporate members and holding or representing by proxy not less than Ten Percent (10%) of the issued capital of the Company shall be a quorum for a general meeting for all purposes.

43. No business shall be transacted at a general meeting unless the quorum requisite shall be present at the commencement of the meeting.

44. If within one half hour after the time appointed for a meeting a quorum is not present, the meeting, if convened upon requisition of members, shall be dissolved. In any other case those present may adjourn the Meeting to such time and place as they may see fit and if at such adjourned meeting a quorum is not present it may be further adjourned by those present and similarly further adjourned from time to time thereafter until a quorum shall be present, but if no provision for adjournment is made at any such meeting or adjourned meeting at which a quorum is not present the meeting shall be dissolved.

45. The President of the Company shall preside as Chairman at every general meeting of the Company. Failing the President, a Vice-President shall preside.

46. If there be no President or Vice-President or if at any meeting any one of them be not present within fifteen (15) minutes after the time for holding the meeting, the members present shall choose some one of their number to be Chairman.

47. The Chairman may with the consent of the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished at the meeting from which the adjournment took place.

48. Every question submitted to a Meeting shall be decided in the first instance by a show of hands unless before or upon the declaration of the result of the show of hands a poll be demanded by the Chairman, or by one or more Shareholders personally present or represented by proxy and entitled to vote, or as may in special instances be required by law. The Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes to which he may be entitled as a member, in the case of an equality of votes.

49. At any general meeting, unless a poll is demanded by the Chairman or by a member or members holding or representing by proxy at least one-tenth of the shares represented at such meeting, a declaration of the Chairman that a resolution has been carried, or carried by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect in the book of proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

50. If a poll is demanded as aforesaid it shall be taken in such manner and at such time and place as the Chairman of the meeting directs and either at once or after an interval or adjournment, and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn. In case of a dispute as to the admission or rejection of a vote the Chairman shall determine the same and such determination made in good faith shall be final and conclusive.

51. Any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment, shall be taken at the meeting and without adjournment.

52. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

53. Any resolution passed by the Directors, notice whereof shall be given to the members in the manner in which notices are hereinafter directed to be given and which shall within one month after it shall have been so passed be ratified and confirmed in writing by members holding in the aggregate a majority of the issued capital of the Company, shall be as valid and effectual as a resolution of a general meeting, but this clause shall not apply to a resolution for winding up the Company or to a resolution passed in respect to any matter which by the statutes or these presents ought to be dealt with by special or extraordinary resolution.

#### VOTES OF MEMBERS

54. Subject to any provisions of the Memorandum or Articles of Association of the Company with regard to special rights or restrictions on voting applicable to any class or classes of shares

(a) on a show of hands every member personally present and every duly appointed proxy

or representative of a member attending the meeting shall have one vote, and

(b) on a poll every member, proxy or representative attending the meeting and entitled to vote shall have one vote for each share of which he is the holder, proxy or representative.

55. A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, curator bonis or other person in the nature of a committee or a curator bonis appointed by the Court, and any such committee, curator bonis or other person may, on a poll, vote by proxy.

56. The Directors may allow any person or persons upon being satisfied that such person or persons is or will be entitled to become registered as executor or executors or administrator or administrators of any deceased person, to vote any shares registered in the name of the deceased person at any meeting.

57. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, and if more than one of such joint holders be present at any meeting, personally or by proxy, any one of such joint holders may vote in respect of such share, unless any other of such joint holders is present at the meeting at which such vote is tendered and objects to the vote in which event the member whose name stands first in the register of members as one of the holders of such share or shares, and no other shall be entitled to vote in respect of same.

58. Votes may be given either personally or by proxy, and in the case of a Company, by a representative duly authorized.

#### PROXIES

59. The instrument appointing a proxy shall be in writing, in common form or in such form as may be approved by the Directors, and shall be signed by the appointer or his attorney duly authorized in writing and need not be attested.

60. A person may be appointed a proxy although not a member of the Company.

61. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date of its execution unless it is otherwise specified in the instrument.

62. The instrument appointing a proxy and the Power of Attorney or other authority, if any, under which it is signed, or a notarially certified copy of that Power of Attorney, shall be deposited in the registered office of the Company, or at such other place or places as the Directors may prescribe, and shall be so deposited prior to commencement of the meeting at which votes are to be given thereunder provided that if the Directors so determine by resolution and notice thereof is given in the Notice convening any meeting or adjourned meeting, the latest time for making such deposit may be advanced to a time which is not more than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays) before the time for holding the meeting at which the person named in the statement proposed to vote, and in default the instrument of proxy shall not be treated as valid.

63. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal, or revocation of the proxy, or transfer of the share in respect of which the vote is given, provided no intimation in writing of the death, revocation, or transfer shall have been received at the registered office of the Company at least forty-eight (48) hours before the meeting at which the vote is given.

64. The Directors may from time to time make regulations regarding the lodging of instruments appointing a proxy at some place or places other than the place at which a meeting or adjourned meeting of shareholders is held and for particulars of such instruments to be cabled or telegraphed before the meeting or adjourned meeting, to the Company, and that instruments appointing a proxy so lodged may be voted upon as though the instruments themselves were produced at the meeting or adjourned meeting, and votes given in accordance with such regulations shall be valid and shall be counted. Pending the making of such regulations the Chairman of any meeting of shareholders may in his discretion accept telegraphic or cabled communications as to the authority of anyone claiming to vote on behalf of and to represent a shareholder notwithstanding that no instrument of proxy conferring such authority has been lodged with the Company and any votes given in accordance with such telegraphic or cabled communication accepted by the Chairman shall be valid and shall be counted.

#### DIRECTORS

65. The number of Directors shall be not less than two or more than seven.

66. The first Directors of the Company shall be the signatories hereto and they shall hold office until the first meeting of shareholders.

67. A Director need not be a shareholder of the Company.

68. Notwithstanding anything contained in or done pursuant to Articles 69 and 72, it shall be lawful for the Directors elected by the shareholders at any time and from time to time to add to their numbers and to appoint additional Directors but so that the total number of Directors shall not exceed the maximum number fixed by these presents.

69. The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors within the maximum and minimum number specified in Article 65 hereof, and may at such meeting elect Directors to fill any vacancies resulting from an increase in the number thereof.

#### ELECTION OF DIRECTORS

70. At the first annual general meeting and at every succeeding annual general meeting all of the Directors however appointed or elected shall retire from office. A retiring Director shall retain office until the dissolution of the meeting at which his successor is elected.

71. A retiring Director shall be eligible for re-election.

72. The Company at the general meeting at which any Directors retire in manner aforesaid shall fill up the vacated offices by electing new Directors or in case any change in the number of Directors is made at any such meeting, shall elect the number or persons to be Directors as may be fixed by such meeting.

## CASUAL VACANCIES

73. The Directors shall have power from time to time and at any time to appoint any other person as a Director to fill a casual vacancy occurring in the Board.

## RESIGNATION OF DIRECTORS

74. A Director may retire from his office upon giving one month's notice in writing to the Company of his intention so to do and such resignation shall take effect upon the expiration of such notice; PROVIDED that the Board of Directors may accept such resignation prior to the expiration of such notice and in such event the resignation shall take effect upon such acceptance by the Board.

75. The continuing Directors or a continuing Director may act notwithstanding any vacancy in their body, so long as there remains a quorum of the Board of Directors qualified to act.

## DISQUALIFICATION OF DIRECTORS

76. The office of a Director shall be vacated :

- (a) If he is found to be a lunatic or become of unsound mind;
- (b) If by notice to the Company in writing he resigns his office ;
- (c) If he is removed from office by the Company in general meeting specially called for the purpose;
- (d) If he becomes bankrupt or makes an authorized assignment or suspends payment, or compounds with his creditors.

77. No Director shall be disqualified by his office from holding any office or place of profit under the Company or under any Company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company either as a vendor, purchaser or otherwise howsoever, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested either personally or as a member of a firm or a syndicate or any other association whatsoever, or as a shareholder or Director of a Company or in any manner whatsoever be avoided, nor shall any Director be liable to account to the Company for any profit arising from any such office or place of profit, or realized by him under any such contract or agreement by reason of such Director holding that office or of the fiduciary relationship thereby established but the Director must declare that he has an interest and the nature thereof, at the Meeting of Directors at which the contract or arrangement is determined on, if his interest then exists, or in any case at the first meeting of the Directors at which he is present after the acquisition of his interest, and a Director may, as a Director, vote in respect of any contract or arrangement in which he is so interested as aforesaid. A general notice that a Director is a member of any specified firm, syndicate or company or any association whatsoever, and is to be regarded as interested in all transactions with that firm, syndicate or company or other association shall be sufficient disclosure under this clause as regards such Director and the said transactions, and after such general notice it shall not be necessary for such Director to give a special notice relating to any particular transaction with that firm, syndicate, company or other association.

78. Any Director who is a solicitor may be employed by the Directors as solicitor for the Company and as such shall be entitled to receive the usual remuneration for his services as solicitor.

## REMOVAL OF DIRECTORS

79. The Company in general meeting may by an extraordinary resolution remove any Director before the expiration of his period of office and may by an ordinary resolution appoint another person in his stead; the person so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

## POWERS OF DIRECTORS

80. The business of the Company shall be managed by the Directors who may pay all expenses incurred in getting up and registering the Company, and may exercise all such powers of the Company as are not by the statutes or by these articles required to be exercised by the Company in general meeting, subject, nevertheless, to any amendment of these articles, to the provisions of the statutes and to such regulations as may be prescribed by the Company in general meeting; but no regulations made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

81. Without prejudice to the general powers conferred by Section 80 of these presents and all other powers conferred by these presents, it is hereby expressly declared that the Directors shall have the following powers :

(a) They may pay the costs, charges and expenses preliminary and incidental to the promotion, formation, establishment and registration of the Company.

(b) They may purchase or otherwise acquire for the Company any property rights or privileges which the Company is authorized to acquire at such price and generally on such terms and conditions as they think fit.

(c) They may in their discretion pay for any rights acquired by or services rendered to the Company either wholly or partially in cash or in shares, bonds, debentures or other securities of the Company and any such shares may be issued either as fully paid up or with such amount credited as paid up thereon as may be agreed upon and any such bonds, debentures or other securities may be either specifically charged upon all or any part of the property of the Company and its uncalled capital or not so charged.

(d) They may sell, lease or otherwise dispose of any property rights or privileges belonging to the Company at such price and generally on such terms and conditions as they think fit and may give time for payment of said purchase price or accept payment thereof in cash or shares of other companies or part cash and part shares.

(e) They may secure the fulfilment of any contracts or engagements entered into by the Company by mortgage or charge on all or any of the property of the Company and its unpaid capital for the time being or in such manner as they may think fit.

(f) They may appoint and at their discretion remove or suspend such managers, secretaries, officers, agents, clerks and servants for permanent, temporary or special services as they may from time to time think fit and may determine their duties and fix their salaries or emoluments and may require security in such instances and to such amounts as they may think fit.

(g) They may attach to any shares to be issued as the consideration or part of the consideration of any contract with or property acquired by the Company such conditions as to the transfer thereof as they may think fit.

(h) They may appoint any person or persons to accept and hold in trust for the Company any property belonging to the Company or in which it is interested and may execute and do all things as may be requisite to vest the same in such person or persons.

(i) They may institute, conduct, defend, compound or abandon any legal proceedings by or against the Company or its officers or otherwise concerning the affairs of the Company, and also may compound and allow time for payment or satisfaction of any debts and of any claim or demands by or against the Company.

(j) They may refer any claim or demand by or against the Company to arbitration and observe and perform the awards.

(k) They may make and give receipts, releases and other discharges for money payable to the Company and for the claims and demands of the Company.

(l) They may act on behalf of the Company in all matters relating to bankrupts and insolvents.

(m) They may from time to time provide for the management of the affairs of the Company abroad in such manner as they may think fit and particularly may appoint any persons to be the attorneys or agents of the Company with such powers and upon such terms as may be thought fit.

(n) They may invest any of the funds of the Company not immediately required for the purposes thereof upon such securities and in such manner as they may think fit and they may from time to time vary or realize such investments.

(o) They may execute in the name and on behalf of the Company in favour of any Director or other person who may incur liabilities whether as principal or surety for the benefit of the Company such mortgages of the Company's property (present and future) as they may think fit, and any such mortgage may contain a power of sale and such other powers, covenants and provisions as shall be agreed upon.

(p) They may give to any Director, officer, solicitor or other person employed by the Company a commission on the profits of any particular business or transaction or a share in the general profits of the Company and such commission or charges or profits shall be treated as part of the working expenses of the Company.

(q) They may before declaring any dividend set aside out of the profits of the Company such sums as they think proper as a reserve fund to meet contingencies or for equalizing dividends or for repairing, improving and maintaining any of the property of the Company and for such other purposes as the Directors shall in their absolute discretion think conducive to the interests of the Company and they may invest the several sums so set aside upon such investments as they think fit and may from time to time deal with and vary such investments and dispose of all or any part thereof for the benefit of the Company and they may divide the reserve fund into such capital funds as they may think fit.

(r) They may from time to time make, vary and repeal by-laws for the regulation of the business of the Company, its officers and servants or the members of the Company or any section thereof.

(s) They may enter into all such negotiations and contracts and rescind and vary all such contracts and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purpose of the Company.

(t) The Directors may borrow money on the credit of the Company from time to time and in such amounts as they may think proper, and may hypothecate, mortgage or pledge the real and personal property of the Company to secure the sum or sums borrowed and may issue bonds or debentures, perpetual or otherwise, charged upon all or any of the Company's property of whatsoever kind or nature and wheresoever situate, both present and future, including its uncalled capital.

#### MANAGING DIRECTOR

82. The Directors may from time to time appoint one of their Board to be Managing Director of the Company, either for a fixed time or without any limit as to the period for which he is to hold office and may from time to time dismiss him from office and appoint another in his place and if he ceases to hold office of Director from any cause he shall immediately cease to be Managing Director.

83. The remuneration of a Managing Director shall from time to time be fixed by the Directors and may be by way of salary or commission or participation in the profits or by all or any of the within modes.

84. The Directors may from time to time entrust to and confer upon the Managing Director for the time being such of the powers legally exercisable by the Directors as they may think fit and may confer such powers for such time and to be exercisable for such purposes and upon such terms and conditions and with such restrictions as they may deem expedient and the Directors may confer such powers either collateral with or to the exclusion of and in substitution for all or any of the powers of the Directors in that behalf and may from time to time revoke, withdraw, alter and vary all or any such powers.

#### PROCEDURE OF DIRECTORS

85. The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings. Unless and until otherwise fixed by Resolution of the Board of Directors of the Company a quorum shall consist of a majority of the Directors.

86. Meetings of the Board of Directors may be held either within or without the Province of Alberta. The Directors may make regulations in regard to the manner and time that notice shall be given of such meetings. Until such regulations are made meetings of the Board may be held at any time without formal notice if all the Directors are present or those absent have signified their consent in writing to the meeting being held in their absence; and notice of any meeting where notice has not been dispensed with, delivered or mailed or telegraphed to each Director at his ordinary address two (2) days prior to such meeting, shall be sufficient notice of any Meeting of the Directors. In computing such period of two (2) days the day on which the notice is delivered, mailed or telegraphed shall be included, and the day for which notice is given shall be excluded. Notice of any meeting or irregularity in any meeting or in the notice thereof may be waived by a Director either before or after the meeting. The Directors may by resolution appoint a regular time and place for meetings, and no further or other notice of such time and place than the entry of such resolution upon the minutes of the meeting at which it was passed shall be necessary. Immediately upon the conclusion of the annual general meeting a meeting of the newly elected Directors shall be held and no notice of such meeting shall be necessary.

87. The President may, or the Secretary shall at the request of any two Directors, at any time convene a meeting of Directors.

88. Questions arising at any meeting of Directors may only be decided by a majority vote, and in case of an equality of votes the Chairman shall have a second or casting vote.

89. The continuing Directors may act notwithstanding any vacancy in their number but if and so long as their number is reduced below the number fixed by or pursuant to regulations of the Company as the necessary quorum of Directors, the continuing Directors may act only for the purpose of increasing the number of Directors to that number or summoning a general meeting of the Company, but for no other purpose.

90. The Directors may appoint one of their number to be Chairman of the Board of Directors, and in the absence of such appointment the President for the time being of the Company shall be Chairman of the Board. If the Chairman is not present at any meeting at the time appointed for holding the same, the Directors present shall choose someone of their number to be Chairman of such meeting.

91. A meeting of the Directors at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under the regulations of the Company for the time being vested in or exercisable by the Directors generally.

#### COMMITTEES

92. The Directors may delegate any of their powers to committees consisting of one or more of their body as they think fit. Any committee formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on them by the Directors.

93. A committee may elect a Chairman of its meetings. If no such Chairman is elected or if he is not present at the time appointed for holding the same the members shall choose one of their number to be chairman of such meeting.

94. A committee may meet and adjourn as they think proper. Questions arising at any meeting shall be determined by a majority of votes of the members present; and in case of an equality of votes the Chairman shall have a second or casting vote.

95. All acts done by any meeting of Directors or of a committee of Directors or by any person acting as Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Directors or persons acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

#### RESOLUTIONS IN WRITING

96. A resolution in writing, signed by all Directors without their meeting together, shall be as valid and effectual as if it had been passed at a Meeting of the Directors duly called and constituted, and shall be held to relate back to any date therein stated to be the effective date thereof.

#### REMUNERATION OF DIRECTORS

97. The Directors shall be paid out of the funds of the Company by way of remuneration for their services as Directors such sums as the majority of the Directors may determine.

98. If any of the Directors shall be called upon to perform extra service or to make any special exertions in going abroad or residing abroad for any of the purposes of the Company or the business thereof, the Company shall remunerate the Director or Directors so doing either by a fixed sum or by a percentage of profits or otherwise as may be determined and such remuneration may be either in addition to or in substitution for his or their share in the remuneration otherwise provided.

#### INDEMNITY OF DIRECTORS

99. Each and every Director of the Company shall be deemed to have assumed office on the express understanding, agreement and condition that every Director of the Company, his heirs, executors, administrators and estate and effects respectively shall from time to time and at all times be indemnified and saved harmless out of the funds of the Company from and against all costs, charges and expenses whatsoever, which such Director sustains or incurs in or about any action, suit or proceeding which is brought, commenced or prosecuted against him or them for or in respect of any act, deed, matter or thing whatsoever made, done or permitted by him or them in or about the execution of the duties of his or their office or offices and also from and against all costs, charges and expenses which he or they may sustain or incur in or about or in relation to the affairs of the Company except such costs, charges and expenses as are occasioned by his or their own fraud, dishonesty, wilful neglect or default.

#### PROTECTION OF DIRECTORS AND OFFICERS

100. No Director or officer for the time being of the Company shall be liable for the acts, receipts, neglects or defaults of any other Director, officer or employee or for joining in any receipt or act for conformity or for any loss, damage or expense happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Board of Directors for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the monies of or belonging to the Company shall be placed out or invested or for any loss or damage arising from the bankruptcy, insolvency, or wrongful act of any person, firm or corporation with whom any monies, securities or effects shall be lodged or deposited or for any loss occasioned by an oversight or error in judgment on his part or for any other loss, damage or misfortune which may happen in the exercise of his respective duties or trust or in relation thereto unless the same shall happen by his own or through his own wilful act or default. Directors may rely upon the accuracy of any statement or report prepared by the Company's auditors and shall not be responsible or held liable for any loss or damage resulting from the payment of dividends or otherwise acting upon such statement or report.

#### MINUTES

101. The Directors shall cause minutes to be entered in books provided for the purposes :

- (a) of all appointments of officers ;
- (b) of all names of all the Directors present at each meeting of Directors and of any committee of such Directors;
- (c) of all orders made by the Directors and committees of Directors;
- (d) of all resolutions and proceedings of general meetings and meetings of the Directors and committees.

Any such minutes of any meeting of Directors or of any committee or of the Company, if purporting to be signed by the Chairman of such meeting or by the Chairman of the next succeeding meeting, shall be receivable as prima facie evidence of the matters stated in such minutes.

102. Spare

#### OFFICERS

103. The officers of the Company shall consist of a President and a Secretary and such other officers as the Directors may from time to time appoint including, but not limited to, one or more Vice-Presidents, and a Treasurer. Any one person may fill more than one of the above offices. The person holding any such office besides fulfilling any duties assigned to him by these Articles of Association and by the Directors shall have such powers as are usually incidental to his office.

104. The President shall be elected by the Board from amongst their number and shall hold office as such during the period of his tenure of office as a Director or such shorter period as the Board may determine. No other officer need be a member of the Board. All Vice-Presidents, the Secretary and Treasurer or Secretary-Treasurer of the Company shall be appointed by the Board and shall hold office as such during pleasure of the Board. The Board may appoint an Assistant-Secretary and may appoint an Assistant-Treasurer who shall be empowered to act in the absence of or under the direction of the person holding the senior office in the performance of all or any of the duties of that office. The Directors may appoint a temporary substitute for any of the above officers, who shall for the purpose of these presents be deemed to be the officer, the position of whom he occupies. The Directors shall have the power to fix the salaries and emoluments of the above officers.

#### DIVIDENDS

105. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be paid to the members in proportion to the number of shares held by them.

106. No dividend shall be declared when the Company is insolvent or which shall render the Company insolvent or which will impair the capital of the Company.

107. The Directors may from time to time pay to the members on account of the next forthcoming dividend such interim dividends as in their judgment the position of the Company justifies.

108. The Directors may deduct from the dividends payable to any member all such sums of money as may be due from him to the Company on account of calls or otherwise.

109. The Directors declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of the Company or of any other Company or in any one or more of such ways. The Directors may settle any difficulty which may arise with regard to such distribution in such manner as they think expedient and in particular may issue warrants for fractional share interests which shall not confer upon the holders thereof any voting or other rights other than the right to secure full shares upon the surrender of such warrants with other like warrants aggregating in interest one or more full shares, and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the values so fixed in order to adjust the rights of all parties and may vest any specific assets in trustees upon such trusts for the persons entitled to the dividend as may seem expedient to the Directors.

110. The Company may retain any dividends on which the Company has a lien and may apply the same in or towards the satisfaction of the debts, liabilities or engagements in respect of which such lien arises.

111. Notice of any dividend that may have been declared shall be given to each member in manner hereinafter mentioned and all dividends unclaimed for three years after having been declared may be forfeited by the Directors for the benefit of the Company.

112. No dividend shall bear interest as against the Company.

113. Unless otherwise directed any dividend or other payment required to be made to a shareholder may be paid by cheque on the Bank of the Company, sent through the post to the registered address of the member entitled to it, or in the case of joint holders, the registered address of that one whose name stands first on the register in respect of the joint holding; and every cheque or warrant so sent shall be made payable to the order of the person to whom it is sent, and in case of joint holders it may be made payable to the order of all of such joint holders.

114. The Directors may credit the amount of any dividend on shares of the Company already issued but not fully paid and in such event the liability of the holders of such shares shall be reduced by the amount of the dividend.

#### DEEDS AND DOCUMENTS

115. All deeds and documents executed on behalf of the Company may be in such form and contain powers, provisions, conditions, covenants, clauses and agreements as the Directors shall think fit and in addition to being sealed with the seal of the Company shall be signed by two Directors or by the President and the Secretary, or may be executed in such manner as the Directors may by resolution prescribe.

#### DEBENTURES

116. Any debentures, debenture stock, bonds or other securities issued by the Company may be issued at a discount premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotments of shares, dividends and voting at general meetings of the Company, appointment of Directors and otherwise. Debentures, debenture stock and other securities may be made assignable free from any equities between the Company and the persons to whom the same may be issued.

## ACCOUNTS

117. The Directors shall cause true accounts to be kept of the assets and stock-in-trade of the Company of the sums of money received and expended by the Company and the matter in respect of which such receipts and expenditures take place; and of the credits and liabilities of the Company.

118. The accounts shall be kept in such books and in such manner as the Directors think fit and to the satisfaction of the Auditors and shall at all times be open to the inspection of the Directors.

119. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of the members; and no member shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorized by the Directors, and no member not being a Director shall be entitled to require or receive any information concerning the business, trading or customers of the Company or any trade secret or secret process of or used by the Company.

120. Once at least every year the Directors shall lay before the Company in general meeting a statement of the income and expenditures for the past year made up to date not more than four months before such meeting.

121. The statement so made shall show arranged under the most convenient heads the amount of gross income distinguishing the several sources from which it has been derived and the amount of gross expenditure distinguishing the expenses of establishment, salaries and other like matters. Every item of expenditure fairly chargeable against the year's income shall be brought into account so that a just balance of profit and loss may be laid before the meeting and in cases where any item of expenditure which may in fairness be distributed over several years has been incurred in one year the whole amount of such item shall be stated with the addition of the reason why only a portion of such expenditure is charged against the income of the year.

122. A balance sheet shall be made out every year and laid before the Company in general meeting and such balance sheet shall contain a summary of the property and liabilities of the Company.

123. A copy of such balance sheet shall, seven days previously to such meeting, be served on every member in the manner in which notices are directed to be served.

## NOTICES

124. Any notice may be served by the Company upon any member or Director either personally or by sending it through the post in a prepaid letter addressed to such person at his registered address appearing in the books of the Company, and if there be no such address then to General Delivery at his last known place of residence as determined by the Secretary of the Company.

125. All notices directed to be given to the members shall with respect to any share to which persons are jointly entitled be given to whichever of such persons is named first in the register of members and notice so given shall be sufficient notice to all holders of such shares.

126. Any notice if served by post shall be deemed to have been served at the time when the letter containing the same is posted; and in proving such service it shall be

sufficient to prove that the letter containing the notice was properly addressed and put in the post office. Any notice if served by advertisement shall be deemed to have been served on the date of publication of the newspaper in which the same is inserted.

#### REGISTERED OFFICE

127. The registered office of the Company shall be situate in the Province of Alberta and at such place in the said Province as the Directors may from time to time by resolution prescribe.

#### POOLING AGREEMENTS

128. (a) Nothing in these Articles shall preclude all or any of the members of the Company from entering into an agreement or agreements for the pooling of their shares or any part thereof on such terms and conditions as they may see fit.

(b) Provisions may be made in any such agreement or agreements that voting powers and the right to receive dividends in respect of the shares so pooled shall remain in the members whose shares are affected thereby, notwithstanding that the shareholders may have executed transfers thereof in blank or to trustees or committees on the pooling thereof, to such extent as may be set out and provided for in such agreement or agreements.

#### COMMISSIONS

129. The Company may pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the Company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the Company at such rate of commission as the Directors may prescribe provided that the rate of commission so paid or agreed to be paid shall not exceed twenty-five per cent (25%) of the amount paid or payable for any such shares.







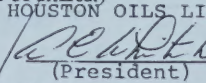
13. Number of shares held in escrow or in pool and a brief statement of the terms of escrow or the pooling agreement.	See "Escrowed Shares", page 4 of Information Circular.																																			
14. Names and addresses of owners of more than a 5% interest in escrowed shares and their shareholdings (If shares are registered in the names of nominees or in street names, give names of beneficial owners, if possible.)	Albert E. Whitehead 1424 Chardie Pl.S.W. Calgary 9, Alberta	6.1% of Amalgamated Company	Total shares 340,500 Escrowed Shares 255,000																																	
15. Names, addresses and shareholdings of five largest registered shareholders and if shareholdings are pooled or escrowed, so stating. If shares are registered in names of nominees or in street names, give names of beneficial owners, if possible, and if names are not those of beneficial owners, so state.	See "Principal Holders of Shares", page 5 of Information Circular.  Of this group, Whitehead, Marx & Lufkin (13 above) have escrowed shares.																																			
16. Names, and addresses of persons whose shareholdings are large enough to materially affect control of the company.	See "Principal Holders of Shares", page 5 of Information Circular.																																			
17. If assets include investments in the shares or other securities of other companies, give an itemized statement thereof showing cost or book value and present market value.	<div>INVESTMENTS IN OTHER COMPANIES</div> <table><tr><th>Name</th><th>No. of Shares</th><th>Book Value</th><th>Market Value</th></tr><tr><td>(1) Acroll Oil &amp; Gas Ltd.</td><td>92 shares issued 723 shares escrowed</td><td>\$ 229.25</td><td>\$ 1,009.00</td></tr><tr><td>(2) The Cariboo Gold Quartz Mining Company Limited</td><td>31,000</td><td>32,140.43</td><td>35,650.00</td></tr><tr><td>(3) United Bata Resources Ltd. (N.R.L.)</td><td>10,426</td><td>77,956.00</td><td>41,704.00</td></tr><tr><td>(4) Western Warner Oils Ltd.</td><td>25,000</td><td>12,500.00</td><td>11,250.00</td></tr><tr><td>(5) Worldwide Energy Company Ltd.</td><td>10,144</td><td>160.38</td><td>22,824.00</td></tr><tr><td>(6) Pacific Silver Mines &amp; Oils Ltd.</td><td>50,000</td><td>7,000.00</td><td>5,500.00</td></tr><tr><td>(7) Westridge Resources Ltd. (A Private Company)</td><td>87,500</td><td>35,000.00</td><td>(No Market Value)</td></tr></table>				Name	No. of Shares	Book Value	Market Value	(1) Acroll Oil & Gas Ltd.	92 shares issued 723 shares escrowed	\$ 229.25	\$ 1,009.00	(2) The Cariboo Gold Quartz Mining Company Limited	31,000	32,140.43	35,650.00	(3) United Bata Resources Ltd. (N.R.L.)	10,426	77,956.00	41,704.00	(4) Western Warner Oils Ltd.	25,000	12,500.00	11,250.00	(5) Worldwide Energy Company Ltd.	10,144	160.38	22,824.00	(6) Pacific Silver Mines & Oils Ltd.	50,000	7,000.00	5,500.00	(7) Westridge Resources Ltd. (A Private Company)	87,500	35,000.00	(No Market Value)
Name	No. of Shares	Book Value	Market Value																																	
(1) Acroll Oil & Gas Ltd.	92 shares issued 723 shares escrowed	\$ 229.25	\$ 1,009.00																																	
(2) The Cariboo Gold Quartz Mining Company Limited	31,000	32,140.43	35,650.00																																	
(3) United Bata Resources Ltd. (N.R.L.)	10,426	77,956.00	41,704.00																																	
(4) Western Warner Oils Ltd.	25,000	12,500.00	11,250.00																																	
(5) Worldwide Energy Company Ltd.	10,144	160.38	22,824.00																																	
(6) Pacific Silver Mines & Oils Ltd.	50,000	7,000.00	5,500.00																																	
(7) Westridge Resources Ltd. (A Private Company)	87,500	35,000.00	(No Market Value)																																	
18. Brief statement of any lawsuits pending or in process against company or its properties.	None																																			
19. The dates of and parties to and the general nature of every material contract entered into by the company which is still in effect and is not disclosed in the foregoing.	See "Material Contracts", page 5 of Information Circular.																																			
20. Statement of any other material facts and if none, so state. Also state whether any shares of the company are in the course of primary distribution to the public.	None.  No shares of the Amalgamated Company will be in the course of primary distribution to the public.																																			


DATED December 31st, 1970

**CERTIFICATE OF THE COMPANY**

The foregoing, together with the financial information and other reports where required, constitutes full, true and plain disclosure of all material facts in respect of the matters referred to in Item 1 above and in respect of the company's affairs and there is no further material information applicable. (To be signed by two principal signing officers who are directors and the corporate seal to be affixed.)

HOUSTON OILS LIMITED

"A. E. Whitehead"  CORPORATE SEAL  
(President)

"J. A. Millard"  (Secretary)

**CERTIFICATE OF UNDERWRITER OR OPTIONEE**

To the best of my knowledge, information and belief, the foregoing, together with the financial information and the reports where required, constitutes full, true and plain disclosure of all material facts in respect of the matters referred to in Item 1 above in respect of the company's affairs. Concerning matters which are not within my knowledge, I have relied upon the accuracy and adequacy of the information supplied to me by the company. (To be signed by underwriter or optionee registered with the Ontario Securities Commission or a corresponding body.)

